

**Annual Threat Assessment of the
US Intelligence Community
for the Senate Select Committee on Intelligence**



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Senate Select Committee on Intelligence

US INTELLIGENCE COMMUNITY ANNUAL THREAT ASSESSMENT

STATEMENT FOR THE RECORD

Chairman Feinstein, Vice Chairman Bond, Members of the Committee, thank you for the invitation to offer the Intelligence Community's assessment of threats to US national security. I am pleased to be accompanied today by the Directors of the Central Intelligence Agency, Defense Intelligence Agency, Federal Bureau of Investigation, and the Acting Assistant Secretary of State for Intelligence and Research.

The strategic landscape has changed considerably for US interests over the past year. We see some improvements, but also several entrenched problems and slow progress in some areas for the foreseeable future. Several large-scale threats to fundamental US interests will require increased attention, and it is on one of these threats that I will focus our initial discussion.

Far-Reaching Impact of the Cyber Threat

The national security of the United States, our economic prosperity, and the daily functioning of our government are dependent on a dynamic public and private information infrastructure, which includes telecommunications, computer networks and systems, and the information residing within. This critical infrastructure is severely threatened.

This cyber domain is exponentially expanding our ability to create and share knowledge, but it is also enabling those who would steal, corrupt, harm or destroy the public and private assets vital to our national interests. The recent intrusions reported by Google are a stark reminder of the importance of these cyber assets, and a wake-up call to those who have not taken this problem seriously. Companies who promptly report cyber intrusions to government authorities greatly help us to understand and address the range of cyber threats that face us all.

I am here today to stress that, acting independently, neither the US Government nor the private sector can fully control or protect the country's information infrastructure. Yet, with increased national attention and investment in cyber security initiatives, I am confident the United States can implement measures to mitigate this negative situation.

The Evolving Threat and Future Trends

The United States confronts a dangerous combination of known and unknown vulnerabilities, strong and rapidly expanding adversary capabilities, and a lack of comprehensive threat awareness. Malicious cyber activity is occurring on an unprecedented scale with extraordinary sophistication. While both the threats and technologies associated with cyberspace are dynamic, the existing balance in network technology favors malicious actors, and is likely to continue to do so for the foreseeable future. Sensitive information is stolen daily from both government and private sector networks, undermining confidence in our information systems, and in the very information these systems were intended to convey. We often find persistent, unauthorized, and at times, unattributable presences on exploited networks, the hallmark of an unknown adversary intending to do far more than merely demonstrate skill or mock a vulnerability. We cannot be certain that our cyberspace infrastructure will remain available and reliable during a time of crisis. Within this dynamic environment, we are confronting threats that are both more targeted and more serious. New cyber security approaches must continually be developed, tested, and implemented to respond to new threat technologies and strategies.

We face nation states, terrorist networks, organized criminal groups, individuals, and other cyber actors with varying combinations of access, technical sophistication and intent. Many have the capabilities to target elements of the US information infrastructure for intelligence collection, intellectual property theft, or disruption. Terrorist groups and their sympathizers have expressed interest in using cyber means to target the United States and its citizens. Criminal elements continue to show growing sophistication in their technical capability and targeting. Today, cyber criminals operate a pervasive, mature on-line service economy in illicit cyber capabilities and services, which are available to anyone willing to pay. Globally, widespread cyber-facilitated bank and credit card fraud has serious implications for economic and financial

systems and the national security, intelligence, and law enforcement communities charged with protecting them.

The cyber criminal sector in particular has displayed remarkable technical innovation with an agility presently exceeding the response capability of network defenders. Criminals are developing new, difficult-to-counter tools. In 2009, we saw the deployment of self modifying malware, which evolves to render traditional virus detection technologies less effective. The Conficker worm, which appeared in 2008 and created one of the largest networks of compromised computers identified thus far, continues to provide a persistent and adaptable platform for other malicious enterprises. Criminals are targeting mobile devices such as “smartphones,” whose increasing power and use in financial transactions makes them potentially lucrative targets. Criminals are collaborating globally and exchanging tools and expertise to circumvent defensive efforts, which makes it increasingly difficult for network defenders and law enforcement to detect and disrupt malicious activities

Two global trends within the information technology environment, while providing greater efficiency and services to users, also potentially increase vulnerabilities and the consequences of security failures. The first is *network convergence*—the merging of distinct voice and data technologies to a point where all communications (e.g., voice, facsimile, video, computers, control of critical infrastructure, and the Internet) are transported over a common network structure—will probably come close to completion in the next five years. This convergence amplifies the opportunity for, and consequences of, disruptive cyber attacks and unforeseen secondary effects on other parts of the US critical infrastructure. The second is *channel consolidation*, the concentration of data captured on individual users by service providers through emails or instant messaging, Internet search engines, Web 2.0 social networking means, and geographic location of mobile service subscribers, which increases the potential and consequences for exploitation of personal data by malicious entities. The increased interconnection of information systems and data inherent in these trends pose potential threats to the confidentiality, integrity and availability of critical infrastructures and of secure credentialing and identification technologies.

The Intelligence Community plays a vital role in protecting and preserving our nation’s cyber interests and the continued free flow of information in cyberspace. As Director of National Intelligence, I am creating an integrated and agile intelligence team to help develop and deploy a defensive strategy that is both effective and respectful of American freedoms and values. In the 2009 National Intelligence Strategy, I focused the Intelligence Community on protecting the US from a multi-vector cyber threat, covering malicious actors seeking to penetrate a network from the outside, insiders, and potential threats hidden within the information technology supply chain. We are integrating cyber security with counterintelligence and improving our ability to understand, detect, attribute, and counter the full range of threats. I started this last summer when I charged my new National Counterintelligence Executive to create a cyber directorate within his office that would provide outreach for foreign intelligence threat warnings and ensure insider threats are thwarted by the USG through use of technology and operational countermeasures. I believe this emphasis can augment and improve existing cyber efforts toward improving national and economic security for our nation.

We cannot protect cyberspace without a coordinated and collaborative effort that incorporates both the US private sector and our international partners. The President's Cyberspace Policy Review provides a unifying framework for these coordinated efforts. The five elements of the framework—leading from the top, building capacity for a digital nation, sharing responsibility for cybersecurity, creating effective information sharing and incident response, and encouraging innovation—serve to align the efforts of the Intelligence Community with its many government and private sector partners. As Director of National Intelligence, I will continue to ensure that information on these threats reaches executive and legislative leaders quickly, to allow them to make informed national security decisions. I will also stay in touch with private companies that provide network services so that we are both helping them stay secure and learning through their experience.

Also, I continue to report to the President on the implementation of the Comprehensive National Cybersecurity Initiative (CNCI), which was designed to mitigate vulnerabilities being exploited by our cyber adversaries and provide long-term strategic operational and analytic capabilities to US Government organizations. By enabling the development of these new technologies and strategies, as a core component of a broad strategic approach to strengthening cybersecurity for the nation, the CNCI will give the United States additional tools to respond to the constantly changing cyber environment. Simultaneously, the CNCI stresses the importance of the private sector as a partner through information sharing and other best practices to address vulnerabilities. My Cyber Task Force produces quarterly reports on this government-wide effort, providing a balanced assessment of its progress at improving the US Government's cyber security stance. The Congress funded most, but not all, of the Administration's request last year. We will need full funding of this program to keep close to pace with our adversaries.

The Changing Threat to the Global Economy

A year ago I began my Statement for the Record by addressing the threat to global economy, which at the time was in a free fall and generating fears of a global depression. An unprecedented policy response by governments and central banks in most large economies compensated for the sudden drop in private sector activity and laid a foundation for a global recovery that most forecasters expect will continue through 2010. Asia, led by China, India, and Indonesia, has been the most robust region globally and has helped support the return of growth elsewhere.

This is likely to be an economic policy transition year in which governments and central banks will face difficult choices about when and how to begin withdrawing stimulus measures as their economies gain steam. Exit strategy missteps could set back the recovery, particularly if inflation or political pressures to consolidate budgets emerge before household consumption and private investment have begun to play a larger role in the recovery. From a geographic perspective this risk is greatest in Europe where the recovery is anemic; and some governments are likely to begin consolidating their budgets despite weak economic conditions. The financial crisis has increased industrial country budget deficits and efforts to reduce those deficits are likely to constrain European and Japanese spending on foreign priorities—such as supporting

efforts to stabilize Afghanistan, assisting poorer countries in coping with climate change and reducing CO₂ emissions, and addressing humanitarian disasters—and spending on their own military modernization and preparedness for much of this decade.

Financial contagion risks are falling but have not disappeared. Most emerging market nations have weathered the crisis, international private investment flows are recovering, and the IMF has the resources to intervene when necessary. Nonetheless, the economies of several countries remain at risk despite the improving global environment. Pakistan and Ukraine are still struggling to put their economic houses in order and probably will face economic setbacks, particularly if they lose support from the IMF and other sources of finance. Bulgaria, Estonia, Greece, Hungary, Iceland, Ireland, Latvia, Lithuania, and Romania remain fragile and the breaking of euro pegs in the region would put new strains on European banks. The near-default of Dubai World late last year serves as a reminder that large company defaults still have the potential to raise investor risk assessments and cause problems in the rollover of corporate debt.

Among the major industrial countries Japan was hardest hit by the crisis due to the importance of its export sector. China is likely to surpass Japan as the world's second largest economy this year—a year earlier than the IMF had forecasted before the crisis hit. As Japan recovers, its exporters will benefit from dynamic growth in emerging Asia and the relative importance of the US market will decline.

Globalization Challenges

The financial crisis was transmitted broadly and rapidly through international capital and trade channels and has challenged the view that globalization is the road to prosperity. The financial crisis did not unleash a wave of 1930s-style beggar-thy-neighbor protectionist policies. Nonetheless, there has been some slippage since the crisis began as several countries have introduced new trade restricting measures, “buy local” government procurement rules, and support to domestic firms to safeguard employment and their companies. Although such policies currently impact a small proportion of global trade, high persistent joblessness and excess capacity in politically sensitive sectors, such as automobiles and steel, will require continued vigilance to ensure that trade disputes do not escalate into a more serious tit-for-tat protectionism. Additionally, Chinese inroads into market share in a range of product markets have made them a leading target of other countries’ trade remedy measures.

The IMF’s role in helping to stabilize at-risk emerging markets during the crisis has shifted the debate about the IMF’s future from whether it has one to what can be done to reform the institution to meet the needs and demands of the next decade. The IMF emerges from the crisis with more resources to deal with financial crises and a new role to support the G-20. The outcome of the G-20 agreement to realign IMF governance to raise emerging market countries clout, however, will largely determine the Fund’s relevance to the larger emerging markets.

The financial and economic crisis provided the catalyst for governments to agree to elevate the G-20 to the premier economic policy forum, giving the largest emerging market country leaders a status on par with G-7 leaders. So far, the three G-20 summits have given an impression of relative unity and produced some significant agreements, such as the decision to

boost IMF financial resources. As the crisis atmosphere fades, however, the G-20's diversity and size may undercut efforts to maintain consensus as policy decisions require more detail and specificity.

Global Energy Security Challenges

One year ago oil prices were falling sharply because of reduced global demand resulting from the crisis. Action by OPEC to cut production and the start of economic recovery are supporting the current higher prices and several forecasters predict that prices will remain strong this year. Sufficient OPEC spare production capacity exists—about 6 million barrels per day (b/d)—to meet oil demand growth in 2010, which the International Energy Agency predicts will be about 1.4 million b/d.

The Intelligence Community is not in the business of predicting oil prices but most market observers expect the combination of high inventory levels and excess production capacity will limit upward movements in oil prices for the next year. The current prices of around \$75 per barrel of crude are well off the record levels of almost \$150 per barrel reached in mid 2008 but are high enough that most large exporting nations are generating enough revenues to finance their budgets and accumulate foreign assets. Nonetheless, Russia is turning to international financial markets this year to fill its budget gap and Venezuela is struggling to offset the lower prices and declines in oil production.

To meet demand growth in next three to 10 years and reduce the risk of future price spikes, however, international and national oil companies will need to re-engage on major projects that were shelved when prices fell in late 2008. For example, several Canadian oil sands projects—high-cost and high carbon-emitting ventures—were delayed or cancelled and, despite current higher prices, most of these projects remain on hold pending a clearer picture of the strength of the economic recovery and policies on CO₂ emissions. Brazil and Kazakhstan are the two other non-OPEC producers that we expect to add substantial capacity, although most of their additional supply will come from deep, technically challenging offshore projects and will not be available until after 2015. Russia is benefiting from the recent completion of several major projects—some operated by foreign companies—but depletion rates in fields now producing makes further gains unlikely absent policy changes to spur development of new fields.

Within OPEC, Iraq is a bright spot for oil capacity expansion. Foreign companies that successfully bid in the two bid rounds held in 2009 are proposing to increase production to about 4-6 million bpd in seven-to-twelve years from the present 2.4 million bpd. Nonetheless, a fragile security and political environment, dilapidated infrastructure, and limited institutional capacity will make it difficult to fully realize this increase. Minor production increases are likely to come from other OPEC producers, primarily in the form of natural gas liquids that are a byproduct of increases in the production of natural gas, especially in such countries as Qatar, Iran, and Algeria.

Recent developments in the US gas sector, primarily shale gas, have made the United States essentially gas independent for at least a decade or two, if not longer. The increase in US natural gas resources has added downward pressure on gas prices worldwide; sharp declines in US

imports of liquefied natural gas cargos, coupled with an increase in liquefaction export capacity, have produced a glut of liquefied natural gas available on the market.

Terrorists Under Pressure; Terrorist Threat to Homeland Remains

I told you last year that we were turning a corner on violent extremism, as Muslim opinion increasingly turned against terrorist groups like al-Qa'ida because of their brutal tactics that resulted in the deaths of Muslim civilians. In statements during the past year I, and other Intelligence Community officials, have highlighted the major counterterrorism successes that we and our partners have scored—successes that have removed key terrorist leaders and operatives who threatened the US Homeland directly, as well as the interests of the United States and its partners overseas. The spate of recent terrorism-related events, if taken judged in isolation, would seem to call into question our counterterrorism successes, and it is natural that we ask ourselves whether these events are evidence of an increase in the threat, a change in the nature of the threat, or both. While our agencies are continuing to evaluate how these events fit into the strategic threat picture and we have many unanswered questions, I would like to put these events into context.

First, we have been warning since 9/11 that al-Qa'ida, al-Qa'ida-associated groups, and al-Qa'ida inspired terrorists remain committed to striking the United States and US interests. What is different is that we have names and faces to go with that warning. We are therefore seeing the reality. In fact, as I will expand on, the individuals who allegedly have been involved in recent events have come from the same components that I have talked about many times before: Najibullah Zazi and his two recently arrested co-conspirators allegedly are associated with core al-Qa'ida; Umar Farouq Abdulmutallab, the Nigerian who allegedly attempted to down the US airliner on Christmas Day, represents an al-Qa'ida affiliated group; and Major Nidal Hasan, who allegedly perpetrated the tragic attack at Fort Hood, is a homegrown extremist.

Second, we can take it as a sign of the progress that while complex, multiple cell-based attacks could still occur, we are making them very difficult to pull off. At the same time, the recent successful and attempted attacks represent an evolving threat in which it is even more difficult to identify and track small numbers of terrorists recently recruited and trained and short-term plots than to find and follow terrorist cells engaged in plots that have been ongoing for years.

Third, while such attacks can do a significant amount of damage, terrorists aiming against the Homeland have not, as yet, been able to attack us with chemical, biological, radiological, or nuclear weapons. I discuss this issue more in my classified statement.

Finally, I note that Muslim support for violent extremism did not change significantly in 2009 and remains a minority view, according to polls of large Muslim populations conducted on

behalf of Gallup and Pew. On average, two-thirds of Muslims in such populations say that attacks in which civilians are targeted “cannot be justified at all.” Support for violent groups is likely diminishing among the Pakistani and Saudi populations, with the percent of Pakistanis who view the Taliban negatively roughly doubling over the past year. In Saudi Arabia, violence-and terrorism-related indicators monitored by Gallup decreased since May 2008. I refer you to my classified statement for more information regarding polling and our analysis.

Again, important progress has been made against the threat to the US Homeland over the past few years, but I cannot reassure you that the danger is gone. We face a persistent terrorist threat from al-Qa’ida and potentially others who share its anti-Western ideology. A major terrorist attack may emanate from either outside or inside the United States. Enhanced offensive and defensive counterterrorism efforts have certainly interrupted or deterred some plotting against the Homeland, but actionable intelligence on the key details of terrorist plots—dates, specific targets, and the identity of operatives—are often fragmentary and inconclusive thanks to the terrorists’ stringent operational security practices.

The Threat from the Al-Qa’ida Core

We judge that al-Qa’ida maintains its intent to attack the Homeland—preferably with a large-scale operation that would cause mass casualties, harm the US economy, or both.

- In April 2009, Abu Yahya al-Libi, the official spokesperson and head of al-Qa’ida’s religious committee, publicly advocated blowing up US military, political, economic, and financial institutions. While he did not specifically address attacking the Homeland, in a videotaped message in June 2009 Usama Bin Laden warned the American people to be prepared to continue reaping what the White House sowed. In the same month al-Qa’ida’s third-in-command, Shaykh Sa’id al-Masri, said that the organization’s strategy for the future is similar to its strategy in the past—namely “hitting Americans.”

In our judgment, al-Qa’ida also retains the capability to recruit, train, and deploy operatives to mount some kind of an attack against the Homeland. Counterterrorism efforts against al-Qa’ida have put the organization in one of its most difficult positions since the early days of Operation Enduring Freedom in late 2001. However, while these efforts have slowed the pace of anti-US planning and hindered progress on new external operations, they have not been sufficient to stop them.

The Government alleges that al-Qa’ida successfully trained in Pakistan at least one operative, Najibullah Zazi, for operations inside the Homeland. Prior to his discovery, he was allegedly able to acquire materials for homemade explosives, possibly with the assistance of other US persons, and assemble and test devices.

What Would Another al-Qa’ida Homeland Attack Look Like?

We know that al-Qa’ida often recycles targeting concepts with some tactical variations. Some of the plots disrupted since 9/11 have involved attacks on a smaller scale than those in 2001, but the most recent plot for which we knew the target was the London-based aviation plot in 2006, which involved mid-air attacks on multiple aircraft.

- The ongoing investigation into the case of Najibullah Zazi has not yet revealed the intended target(s) of this alleged plot. Zazi was allegedly developing hydrogen peroxide-based homemade explosives, which have been featured in several al-Qa'ida external plots against the West since 9/11.
- Targets that have been the focus of more than one al-Qa'ida plot include aviation, financial institutions in New York City, and government targets in Washington, D.C. Other targets al-Qa'ida has considered include the Metro system in Washington D.C., bridges, gas infrastructure, reservoirs, residential complexes, and public venues for large gatherings.
- We cannot rule out that al-Qa'ida's interest in damaging the US economy might lead the group to opt for more modest, even "low-tech," but still high-impact, attacks affecting key economic sectors.

We judge that, if al-Qa'ida develops chemical, biological, radiological, or nuclear (CBRN) capabilities and has operatives trained to use them, it will do so. Counterterrorism actions have dealt a significant blow to al-Qa'ida's near-term efforts to develop a sophisticated CBRN attack capability, although we judge the group is still intent on its acquisition.

Al-Qa'ida Targeting US Partners Overseas

Al-Qa'ida's strategy for driving Western influence from Islamic lands, halting Pakistani counterterrorism efforts in the FATA, and facilitating the establishment of sharia law in South Asia includes conducting terrorist attacks on many of our partners overseas.

- We judge that al-Qa'ida is still plotting attacks against the European targets and that it has encouraged its affiliates to target European citizens in countries in which the affiliates operate.
- Al-Qa'ida has encouraged and supported Pakistani militants who have stepped up attacks in major cities in Pakistan, resulting in numerous casualties.

What It Will Take to Stop Al-Qa'ida

Al-Qa'ida's ability to deploy additional operatives into the Homeland to conduct attacks will depend heavily on whether the United States and its partners maintain enhanced counterterrorism efforts against the group's activities in the FATA and on US, European, and Pakistani efforts to identify and disrupt operatives.

- We assess that at least until Usama Bin Ladin and Ayman al-Zawahiri are dead or captured, al-Qa'ida will retain its resolute intent to strike the Homeland. We assess that until counterterrorism pressure on al-Qa'ida's place of refuge, key lieutenants, and operative cadre outpaces the group's ability to recover, al-Qa'ida will retain its capability to mount an attack.
- Sustaining defensive US security measures will remain a critical component of mitigating threats to the Homeland. Enhanced law enforcement and security measures in the United

States and overseas, including immigration controls, visa requirements, and aviation and border security, continue to deter terrorists from undertaking plots, complicate terrorists' ability to enter the United States, and stop terrorist activity before plans reach the execution phase.

Al-Qa'ida's Global Following

The plans and capabilities of al-Qa'ida in the Arabian Peninsula (AQAP) are of foremost concern at this time, and we will continue to monitor the group's capabilities, intentions, and recruitment of Westerners or other individuals with access to the US Homeland. The investigation into the attempted Christmas Day attack on a US airliner is continuing, but it appears that the al-Qa'ida regional affiliate AQAP, which has advocated attacks on the US Homeland in the past, directed the suspect, Umar Farouk Abdulmutallab, and provided him training and explosives. We are still exploring the genesis of this plot and what other Homeland plots AQAP and associated Yemeni extremists may have planned. We are concerned that they will continue to try to do so, but we do not know to what extent they are willing to direct core cadre to that effort given the group's prior focus on regional operations.

AQAP is focused on expanding its ranks and plotting in Yemen and Saudi Arabia, and AQAP's predecessor attacked the US Embassy in San'aa twice in 2008.

Beyond AQAP, Al-Qa'ida will continue its efforts to encourage key regional affiliates and jihadist networks to pursue a global agenda. A few al-Qa'ida regional affiliates and jihadist networks have exhibited an intent or capability to attack inside the Homeland. Some regional nodes and allies have grown in strength and independence over the last two years and have begun to project operationally outside their regions.

Other regional affiliates and jihadist networks that will bear watching include: Pakistan-based militants associated with al-Qa'ida; jihadists who have left Iraq but remain inspired by al-Qa'ida's anti-Western agenda; and East Africa-based al-Qa'ida affiliates. I discuss these threats in more detail in my classified statement.

- In addition, networks of Islamic extremists in Europe represent a continued threat because of their access to fighters and operatives with training in Afghanistan, Iraq, Pakistan, and Somalia; the presence of active facilitation networks in Europe; and European nationals' relative ease of travel to the United States.
- Al-Qa'ida historically has worked with trusted individuals within Pakistani militant groups to leverage operational resources, including trainees, and almost certainly will continue to do so.
- As al-Qa'ida in Iraq's (AQI) fortunes in Iraq have declined, al-Qa'ida leadership losses in Afghanistan and Pakistan and burgeoning violent campaigns in Yemen and East Africa provide opportunities for AQI veterans to employ their skills elsewhere.

- We judge most Al-Shabaab and East Africa-based al-Qa'ida members will remain focused on regional objectives in the near-term. Nevertheless, East Africa-based al-Qa'ida leaders or al-Shabaab may elect to redirect to the Homeland some of the Westerners, including North Americans, now training and fighting in Somalia.

Lashkar-i Tayyiba (LT) is a special case. Although the group is not focused on the US, we are concerned that, in general, it is becoming more of a direct threat, and is placing Western targets in Europe in its sights. LT's plotting against India and willingness to attack Jewish interests and locations visited by Westerners as demonstrated in the 2008 Mumbai attacks raise concerns that either the group itself or individual members will more actively embrace an anti-Western agenda.

Homegrown Jihadists

Over the past year we have seen ongoing efforts by a small number of American Muslims to engage in extremist activities at home and abroad. The motivations for such individuals are complex and driven by a combination of personal circumstances and external factors, such as grievance over foreign policy, negatively inspirational ideologues, feelings of alienation, ties to a global pan-Islamic identity, and the availability of poisonous extremist propaganda through the Internet and other mass media channels.

We are concerned that the influence of inspirational figures such as Anwar al-Aulaqi will increasingly motivate individuals toward violent extremism. Of particular concern are individuals who travel abroad for training and return to attack the Homeland. Thus far, however, US Intelligence Community and law enforcement agencies with a domestic mandate assess that violence from homegrown jihadists probably will persist, but will be sporadic. A handful of individuals and small, discrete cells will seek to mount attacks each year, with only a small portion of that activity materializing into violence against the Homeland.

The tragic violence at Fort Hood last year underscores our concerns about the damage that even an individual or small number of homegrown extremists can do if they have the will and access. It is clear, however, that a sophisticated, organized threat from radicalized individuals and groups in the United States comparable to traditional homegrown threats in other countries has not emerged. Indeed, the elements most conducive to the development of an entrenched terrorist presence—leadership, a secure operating environment, trained operatives, and a well-developed support base—have been lacking to date in the United States or, where they have been nascent, have been interrupted by law enforcement authorities.

Thus far, radicalization of groups and individuals in the United States has done more to spread jihadist ideology and generate support for violent causes overseas than it has produced terrorists targeting the Homeland. A linkage to overseas terrorist groups is probably necessary to transform this threat into a level associated with traditional terrorist groups. We are watching to see how terrorist overseas may try to stimulate such activity.

Lebanese Hizballah

We judge that, unlike al-Qa'ida, Hizballah, which has not directly attacked US interests overseas over the past 13 years, is not now actively plotting to strike the Homeland. However, we cannot rule out that the group would attack if it perceives that the US is threatening its core interests.

The Growing Proliferation Threat

As we discussed last year at this time, ongoing efforts of nation-states to develop and/or acquire dangerous weapons constitutes a major threat to the safety of our nation, our deployed troops, and our allies. The threat and destabilizing effect of nuclear proliferation and the threat from the proliferation of materials and technologies that could contribute to existing and prospective chemical and biological weapons programs top our concerns.

Traditionally WMD use by most nation states has been constrained by deterrence and diplomacy, but these constraints may be of less utility in preventing the use of mass-effect weapons by terrorist groups. Moreover, the time when only a few states had access to the most dangerous technologies is over. Technologies, often dual-use, circulate easily in our globalized economy, as do the personnel with scientific expertise who design and use them. It is difficult for the United States and its partners to track efforts to acquire WMD components and production technologies that are widely available.

- The IC continues to focus on discovering and disrupting the efforts of those who seek to acquire these weapons and those who provide support to weapons programs elsewhere. We also work with other elements of our government on the safeguarding and security of nuclear weapons and fissile materials, pathogens, and chemical weapons in select countries.

We continue to assess that many of the countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. Nuclear, chemical, and/or biological weapons—or the production technologies and materials necessary to produce them—also may be acquired by states that do not now have such programs; and/or by terrorist or insurgent organizations, and by criminal organizations, acting alone or through middlemen.

We do not know of any states deliberately providing CBRN assistance to terrorist groups. Although terrorist groups and individuals have sought out scientists with applicable expertise, we have no corroborated reporting that indicates such experts have advanced terrorist CBRN capability with the permission of any government. We and many in the international community are especially concerned about the potential for terrorists to gain access to WMD-related materials or technology.

I will begin by detailing what we see as the WMD and missile threat from Iran and North Korea.

Iranian WMD and Missile Program

The Iranian regime continues to flout UN Security Council restrictions on its nuclear program. There is a real risk that its nuclear program will prompt other countries in the Middle East to pursue nuclear options.

We continue to assess Iran is keeping open the option to develop nuclear weapons in part by developing various nuclear capabilities that bring it closer to being able to produce such weapons, should it choose to do so. We do not know, however, if Iran will eventually decide to build nuclear weapons.

I would like to draw your attention to two examples over the past year that illustrate some of the capabilities Iran is developing.

First, published information from the International Atomic Energy Agency indicates that the number of centrifuges installed at Iran's enrichment plant at Natanz has grown significantly from about 3,000 centrifuges in late 2007 to over 8,000 currently installed. Iran has also stockpiled in that same time period approximately 1,800 kilograms of low-enriched uranium. However, according to the IAEA information, Iran also appears to be experiencing some problems at Natanz and is only operating about half of the installed centrifuges, constraining its overall ability to produce larger quantities of low-enriched uranium.

Second, Iran has been constructing—in secret until last September—a second uranium enrichment plant deep under a mountain near the city of Qom. It is unclear to us whether Iran's motivations for building this facility go beyond its publicly claimed intent to preserve enrichment know-how if attacked, but the existence of the facility and some of its design features raise our concerns. The facility is too small to produce regular fuel reloads for civilian nuclear power plants, but is large enough for weapons purposes if Iran opts configure it for highly enriched uranium production. It is worth noting that the small size of the facility and the security afforded the site by its construction under a mountain fit nicely with a strategy of keeping the option open to build a nuclear weapon at some future date, if Tehran ever decides to do so.

Iran's technical advancement, particularly in uranium enrichment, strengthens our 2007 NIE assessment that Iran has the scientific, technical and industrial capacity to eventually produce nuclear weapons, making the central issue its political will to do so. These advancements lead us to reaffirm our judgment from the 2007 NIE that Iran is technically capable of producing enough HEU for a weapon in the next few years, if it chooses to do so.

We judge Iran would likely choose missile delivery as its preferred method of delivering a nuclear weapon. Iran already has the largest inventory of ballistic missiles in the Middle East and it continues to expand the scale, reach and sophistication of its ballistic missile forces—many of which are inherently capable of carrying a nuclear payload.

We continue to judge Iran's nuclear decisionmaking is guided by a cost-benefit approach, which offers the international community opportunities to influence Tehran. Iranian leaders

undoubtedly consider Iran's security, prestige and influence, as well as the international political and security environment, when making decisions about its nuclear program.

That is as far as I can go in discussing Iran's nuclear program at the unclassified level. In my classified statement for the record, I have outlined in further detail the Intelligence Community's judgments regarding Iranian nuclear-related activities, as well as its chemical and biological-weapons activities and refer you to that assessment.

Iran's growing inventory of ballistic missiles and its acquisition and indigenous production of anti-ship cruise missiles (ASCMs) provide capabilities to enhance its power projection. Tehran views its conventionally armed missiles as an integral part of its strategy to deter—and if necessary retaliate against—forces in the region, including US forces. Its ballistic missiles are inherently capable of delivering WMD, and if so armed, would fit into this same strategy.

North Korean WMD and Missile Programs

Pyongyang's nuclear weapons and missile programs pose a serious threat to the security environment in East Asia. North Korea's export of ballistic missiles and associated materials to several countries including Iran and Pakistan, and its assistance to Syria in the construction of a nuclear reactor, exposed in 2007, illustrate the reach of the North's proliferation activities. Despite the Six-Party October 3, 2007 Second Phase Actions agreement in which North Korea reaffirmed its commitment not to transfer nuclear materials, technology, or know-how we remain alert to the possibility North Korea could again export nuclear technology.

The North's October 2006 nuclear test was consistent with our longstanding assessment that it had produced a nuclear device, although we judge the test itself to have been a partial failure based on its less-than-one-kiloton TNT equivalent yield. The North's probable nuclear test in May 2009 supports its claim that it has been seeking to develop weapons, and with a yield of roughly a few kilotons TNT equivalent, was apparently more successful than the 2006 test. We judge North Korea has tested two nuclear devices, and while we do not know whether the North has produced nuclear weapons, we assess it has the capability to do so. It remains our policy that we will not accept North Korea as a nuclear weapons state, and we assess that other countries in the region remain committed to the denuclearization of North Korea as has been reflected in the Six Party Talks.

After denying a highly enriched uranium program since 2003, North Korea announced in April 2009 that it was developing uranium enrichment capability to produce fuel for a planned light water reactor (such reactors use low enriched uranium); in September it claimed its enrichment research had "entered into the completion phase". The exact intent of these announcements is unclear, and they do not speak definitively to the technical status of the uranium enrichment program. The Intelligence Community continues to assess with high confidence North Korea has pursued a uranium enrichment capability in the past, which we assess was for weapons.

Pyongyang's Conventional Capabilities. Before I turn the North Korean nuclear issue, I want to say a few words regarding the conventional capabilities of the Korea People's Army

(KPA). The KPA's capabilities are limited by an aging weapons inventory, low production of military combat systems, deteriorating physical condition of soldiers, reduced training, and increasing diversion of the military to infrastructure support. Inflexible leadership, corruption, low morale, obsolescent weapons, a weak logistical system, and problems with command and control also constrain the KPA capabilities and readiness.

Because the conventional military capabilities gap between North and South Korea has become so overwhelmingly great and prospects for reversal of this gap so remote, Pyongyang relies on its nuclear program to deter external attacks on the state and to its regime. Although there are other reasons for the North to pursue its nuclear program, redressing conventional weaknesses is a major factor and one that Kim and his likely successors will not easily dismiss.

Six Party Talks and Denuclearization. In addition to the TD-2 missile launch of April 2009 and the probable nuclear test of May 2009, Pyongyang's reprocessing of fuel rods removed from its reactor as part of the disablement process appears designed to enhance its nuclear deterrent and reset the terms of any return to the negotiating table. Moreover, Pyongyang knows that its pursuit of a uranium enrichment capability has returned that issue to the agenda for any nuclear negotiations. The North has long been aware of US suspicions of a highly enriched uranium program.

We judge Kim Jong-Il seeks recognition of North Korea as a nuclear weapons power by the US and the international community. Pyongyang's intent in pursuing dialogue at this time is to take advantage of what it perceives as an enhanced negotiating position, having demonstrated its nuclear and missile capabilities.

Afghanistan

Status of the Insurgency

The Afghan Taliban-dominated insurgency has become increasingly dangerous and destabilizing. Despite the loss of some key leaders, insurgents have adjusted their tactics to maintain momentum following the arrival of additional US forces last year. We assess the Taliban was successful in its goal of suppressing voter turnout in the August elections in key parts of the country.

Since January 2007, the Taliban has increased its influence and expanded the insurgency outside the Pashtun belt, while maintaining most of its strongholds. The Taliban's expansion of influence into northern Afghanistan since late 2007 has made the insurgency a countrywide threat. As it has done elsewhere, the Taliban conducts military operations, shadow governance activities, and propaganda campaigns to solidify support among the populace and eliminate resistance to its presence. I refer you to my classified statement for a more detailed discussion of IC analysis of Taliban influence.

The insurgency also has increased the geographic scope and frequency of attacks. Taliban reactions to expanded Afghan and International Security Assistance Force (ISAF) operations

account for some of the increase, but insurgents also have shown greater aggressiveness and undertaken more lethal tactics.

This lack of security in many areas coupled with a generally low government capacity and competency has hampered efforts to improve governance and extend development. Afghan leaders also continue to face the eroding effects of official corruption and the drug trade, which erode diminish public confidence in its already fragile institutions.

Afghan Taliban-al-Qa'ida Links

Al-Qa'ida activity in Afghanistan increased steadily from the beginning of 2006 until early 2009. Nevertheless, the group's manpower contribution to the insurgency in Afghanistan is likely to remain modest because the group's core leadership in Pakistan continues to dedicate resources to planning, preparing, and conducting terrorist operations in Pakistan, the US, Europe, and on other fronts.

We assess al-Qa'ida's ability to operate in Afghanistan largely depends on the relationship between al-Qa'ida operatives and individual Taliban field commanders. Al-Qa'ida fighters rely heavily on Taliban guides to facilitate their movement, lodging, and safety while operating in unfamiliar terrain among a non-Arab population. Al-Qa'ida last year fielded at any one time less than 100 fighters in Afghanistan, while the Taliban has thousands of fighters in Afghanistan. However, this number does not include groups of associated foreign fighters operating inside Afghanistan concurrently and at-times cooperatively with al-Qa'ida.

- We assess that Taliban Supreme Leader Mullah Omar remains committed to supporting al-Qa'ida and elements within the Taliban continue to cooperate with the group in Afghanistan. Nonetheless, al-Qa'ida's efforts to work with Pakistan-based militants to sustain their terror campaign in Pakistan's settled areas is adding strains to al-Qa'ida's relations with the Afghan Taliban leadership.

The safehaven that Afghan insurgents have in Pakistan is the group's most important outside support. Disrupting that safehaven will not be sufficient by itself to defeat the insurgency, but disruption of the insurgent presence in Pakistan is a necessary condition of making substantial counterinsurgency progress. In my classified statement for the record I have outlined in more detail our assessment of the situation regarding Afghanistan-oriented insurgents in Pakistan.

Security Force and Governance Challenges

Against the backdrop of Afghanistan's increasingly dangerous and destabilizing insurgency, continued progress has been made in expanding and fielding the Afghan National Army (ANA) but the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of significant independent action. The Afghan National Police (ANP) has received less training and resources than the Army and is beset by high rates of corruption and casualties and absenteeism. Limitations to the ANP's training, mentoring, and equipping, as well as to the abilities of a force trained to "hold" territory in those large parts of the country that have not been effectively "cleared" hinder its progress and effectiveness. The Ministry of Interior has also remained largely ineffective. We judge the

ANA has a limited but growing capability to plan, coordinate, and execute counterinsurgency operations at the battalion level. It still requires substantial Coalition support in logistics, training, combat enablers, and indirect fire.

In 2010, as we, our NATO Allies, other coalition partners, and our Afghan partners increase efforts on the security front, Kabul must work closely with the national legislature and provincial and tribal leaders to establish and extend the capacity of the central and provincial governments. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level. In addition, continued insecurity undercuts the population's perceptions of the national government's long term prospects to either win the war, or to persuade tribal and other influential non-state actors to remain neutral or back insurgents.

Kabul's inability to build effective, honest, and loyal provincial and district level institutions capable of providing basic government services and enabling sustainable, legal livelihoods erodes its popular legitimacy and has contributed to the influence of local warlords and the Taliban. The Afghan Government established the Independent Directorate of Local Governance (IDLG) in 2007 to address governance shortcomings at the provincial and district level; but the IDLG's efforts to improve governance have been hamstrung by a shortage of capable government administrators.

Many Afghans perceive the police to be corrupt and more dangerous than the Taliban. The inflow of international funding connected to the international military presence and international reconstruction assistance has brought benefits but also has increased the opportunities for corrupt officials to profit from the counterinsurgency and stabilization efforts in the country. The drug trade has a debilitating effect on the government's legitimacy, as criminal networks cooperate with insurgents and corrupt officials in ways that decrease security and the average Afghan's confidence that he will be treated fairly by the authorities.

Status of the Afghan Drug Trade

The insidious effects of drug-related criminality continue to undercut the government's ability to assert its authority outside of Kabul, to develop a strong, rule-of-law based system, and to rebuild the economy. High wheat prices, low opium prices, and provincial-government-led efforts reduced poppy cultivation in Afghanistan to 131,000 hectares in 2009, down 17 percent from the 157,300 hectares cultivated in 2008. Potential opium production fell only 4 percent, however, to 5,300 metric tons, because good weather following a drought in 2008 increased yields. Potential heroin production is estimated at 630 metric tons, if the entire opium crop were processed.

- High wheat prices and low opium prices during the planting season in fall 2008 encouraged farmers to grow more wheat at the expense of poppy. Wheat prices were nearly three times higher than normal, driven by countrywide food production shortfalls, globally high prices for wheat, and a partial ban on wheat imports by Pakistan, Afghanistan's main wheat trading partner. Opium prices have been on a downward trend since 2004, most likely because of continued overproduction.

Recent price trends may lead to a larger poppy crop this year. Wheat prices have dropped by half since the fall 2008 planting season in response to an abundant Afghan wheat harvest last year and global price declines, reducing the profitability of wheat and probably making the crop less desirable than poppy to farmers. However, aggressive governor-led anti-poppy campaigns in some provinces and continued low opium prices caused by persistent overproduction may nevertheless convince some farmers—who are now planting next year's crop—to grow wheat and other licit crops instead of poppy.

- The Afghan Taliban in 2008 received up to \$100 million in opium, cash, and goods and services from the opiate trade in Afghanistan, making the opiate trade the most important source of funding from inside Afghanistan for the Taliban-dominated insurgency.

International Support to Afghanistan

NATO remains committed to supporting ISAF's mission in Afghanistan and Allies agree building the Afghan National Security Forces (ANSF) is key to Afghanistan's long-term stability. Allies concentrated in the south and east—the United Kingdom, France, Canada, Poland, Australia, Denmark, Romania, Estonia, Lithuania ,and the Netherlands—conduct the bulk of the kinetic counterinsurgency operations. ISAF partners have been under increasing pressure in the north, where Berlin has remained committed to supporting training efforts. Operational limitations inhibit the ability of other Allies to make lasting improvements to the security situation, yet key allies have the capacity to make new contributions to the ISAF mission. After the release of the US Afghanistan-Pakistan strategy and the NATO Summit in spring 2009, Allies and partners deployed more than 3,000 additional troops to Afghanistan—primarily for election security, force protection, and training of Afghan forces. After the President's 1 December West Point speech, NATO Allies and other ISAF partners pledged approximately 7,000 troops, including the long-term extension of many of the temporary deployments to support the August 2009 Afghan presidential election.

Pakistan: Turning Against Domestic Extremists

Pakistan-based militant groups and al-Qa'ida are coordinating their attacks inside Pakistan despite their historical differences regarding ethnicity, sectarian differences, and strategic priorities. This tactical coordination across militant networks probably is increasing and is an important factor in the increase in terrorist attacks in Pakistan. We judge that this increase along with the growing "Talibanization" outside of the FATA have made the Pakistani public more concerned about the threat from Pakistan-focused Islamic extremists and more critical of al-Qa'ida, and Pakistanis may be more likely to continue to support efforts to use military force against the extremists.

- According to the Pew Global Attitudes Project, the percentage of Pakistani respondents expressing favorable views of al-Qa'ida declined over the past year from 25 to 9 percent, while those with an unfavorable view increased from 34 to 61 percent. Similarly, respondents expressing favorable views of the Taliban declined from 27 to 10 percent while unfavorable opinions increased from 33 to 70 percent.

On the other hand, despite robust Pakistani military operations against extremists that directly challenge Pakistani government authority, Afghan Taliban, al-Qa'ida, and Pakistani militant groups continue to use Pakistan as a safehaven for organizing, training, and planning attacks against the United States and our allies in Afghanistan, India, and Europe.

Mixed Efforts Regarding Insurgents and Terrorists

Islamabad has demonstrated determination and persistence in combating militants it perceives dangerous to Pakistan's interests, particularly those involved in attacks in the settled areas, including FATA-based Tehrik-e Taliban Pakistan (TTP) and al-Qa'ida and other associated operatives in the settled areas. However, it still judges it does not need to confront groups that do not threaten it directly and maintains historical support to the Taliban. Pakistan has not consistently pursued militant actors focused on Afghanistan, although Pakistani operations against TTP and similar groups have sometimes temporarily disrupted al-Qa'ida. Simultaneously, Islamabad has maintained relationships with other Taliban-associated groups that support and conduct operations against US and ISAF forces in Afghanistan. It has continued to provide support to its militant proxies, such as Haqqani Taliban, Gul Bahadur group, and Commander Nazir group.

- Indeed, as is well known, the al-Qa'ida, Afghan Taliban, and Pakistani militant safehaven in Quetta, the FATA, and the NWFP is a critical safehaven for the insurgency and will continue to enable the Afghan insurgents and al-Qa'ida to plan operations, direct propaganda, recruiting and training activities, and fundraising activities with relative impunity. Substantially reducing the ability of insurgents to operate in Pakistan would not, by itself, end the insurgency in Afghanistan. Pakistan safehaven is an important Taliban strength, and unless it is greatly diminished, the Taliban insurgency can survive defeats in Afghanistan.

That said, Islamabad's poor capabilities to counter the safehavens are improving. Since April Pakistan has allocated significantly more resources and conducted an aggressive campaign to deal with security threats to the settled areas. Nonetheless, Islamabad struggles to assemble effective capabilities for holding and policing cleared areas, delivering public services, and devising an effective system to prevent militant reoccupation of population centers.

Islamabad's conviction that militant groups are an important part of its strategic arsenal to counter India's military and economic advantages will continue to limit Pakistan's incentive to pursue an across-the-board effort against extremism. Islamabad's strategic approach risks helping al-Qa'ida sustain its safehaven because some groups supported by Pakistan provide assistance to al-Qa'ida.

Pakistan's Counterinsurgency (COIN) Improvement. We judge that the actions of senior Pakistani military leaders and the support provided by civilian leaders will continue to drive Islamabad's COIN performance. While much work needs to be done, improved COIN effectiveness over the past year—Islamabad has conducted more sustained operations that have driven militants from major roads and towns in the northern tribal areas and the Malakand region of the NWFP and the Mehsud tribal areas in South Waziristan—has been due to the following factors:

- *A more effective senior leadership* that has rebuilt the Frontier Corp's morale, ensured its units perform better in combat, and identified long-term training, pay, leadership development, facilities, personnel policies, and equipment needs.
- *More military resources deployed* against militancy in western Pakistan—Pakistan has significantly increased the number of military forces operating against militants in the NWFP.
- *Stronger public and political support for military efforts* to reverse the successes militants achieved in the Malakand region in early 2009.

Political Difficulties

Pakistan will continue to be troubled by terrorist violence, extreme partisanship, regional and ethnic groups bent on asserting their interests against Islamabad, and popular discontent with economic conditions.

- Pakistani Taliban insurgents who attempted unsuccessfully to expand their territorial influence outside of the tribal areas in early 2009 are not defeated and most likely will continue to mount other efforts to challenge the Pakistani state outside these areas. These efforts will continue to include costly terrorist attacks on government and civilian targets in Pakistani cities. In the last three months of 2009, as Pakistan mounted new operations against the TTP stronghold in South Waziristan, Pakistan-based extremists and al-Qa'ida conducted at least 40 suicide terrorist attacks in major cities, killing about 600 Pakistani civilians and security force personnel. Al-Qa'ida, with the assistance of its militant allies, is trying to spark a more aggressive indigenous uprising against the government as it seeks to capitalize on militant gains and reorient Pakistan toward its extremist interpretation of Islam.

Pakistan's Economic Situation

The global financial crisis and the insurgency, coupled with domestic economic constraints and long-term underfunding of social sectors, reduced Pakistan's economic growth to 2 percent in 2008–2009. Political turmoil and growing insurgent and terrorist violence in Pakistan since early 2007 contributed to foreign capital flight. Net foreign investment in Pakistan fell by 38 percent last fiscal year compared to the previous year, according to Pakistani central bank statistics, mainly because of a large decline in portfolio investment. Rising food prices and electricity shortages have made economic problems a major focus for popular discontent. The Pakistani Government is focusing intently on obtaining short-term benefits relief—largely through external assistance—while neglecting the concurrent need for longer-term investment. Islamabad will need to implement politically difficult reforms to address debt sustainability—including cutting government spending, eliminating electricity tariffs, and boosting revenues—if it is to put its economic house in order and avoid a new economic crisis. The government has begun to implement some of those reforms by increasing electricity prices.

The international community and international financial institutions remain generally willing to assist Pakistan, though many individual donors have not fulfilled their aid pledges from the April 2008 Tokyo conference. The IMF disbursed \$1.2 billion to Pakistan at the end of

December. This was the fourth tranche of Pakistan's IMF-backed loan and brought the total funds received by Pakistan under the Standby Arrangement to \$6.5 billion.

The longer term challenge to Pakistan is a policy framework that sets the economy on a more sound footing derived from a broader tax base, better transparency in government expenditures, more job opportunities and effective poverty alleviation measures, support for investment in the power sector, and education initiatives that improve Pakistan's ability to attract foreign investment and participate in the global economy.

India

As one of the engines of the global economy, India continues to demonstrate the potential for strong growth in 2010. Indian Government data show that net portfolio inflows for the first half of the Indian fiscal year (which began on 1 April 2009) were almost \$18 billion—market signals that India, under Prime Minister Singh's leadership, remains an attractive location for investment and economic opportunities. World Bank reporting from December 2009 also confirms that India is likely to return to 8 to 9 percent GDP growth rates within the next two years.

In keeping with its status as an emerging world power, the Government of India exerts strong leadership in global and regional fora and in important bilateral relationships. In multilateral groupings such as the G-20 and the Copenhagen Conference on Climate Change, India has reaffirmed its support for various strategic outcomes participating nations hope to achieve in specific negotiations, even though India's near- to mid-term negotiating positions are reflective of unilateral targets and goals. India's recent decision to participate in the April 2010 Global Security Summit signals a continuation of this trend, as New Delhi is likely to pursue longer-terms goals to diminish the numbers and role of nuclear weapons in global security even as the country remains steadfast in its refusal to sign the nuclear Nonproliferation Treaty.

Since its return to power in the May 2009 national elections, the UPA-led government also has begun efforts to improve regional relationships through advocacy of greater economic links among South Asian Association for Regional Cooperation (SAARC) nations and successful bilateral meetings such as the January 2010 State Visit to India by Bangladesh Prime Minister Sheikh Hassina. Indian political leaders, moreover, have publicly declared that the continuing rise of China and India on the global political and economic stages is not a harbinger of automatic conflict, but rather a constructive challenge to India's economic rise and an opportunity for innovation and collaboration by two strong powers. During his November 2009 State Visit to the US, Prime Minister Singh noted that the world should "prepare for the rise of China as a major power," referencing ongoing territorial disputes between the two countries, for example, but also stating that engagement with China was the "right strategy" for India.

India's relationship with Pakistan, however, remains stalled in the aftermath of the November 2008 terrorist attacks on Mumbai conducted by groups operating from Pakistani soil. Indian leaders have stated repeatedly that Pakistani efforts to prosecute those individuals who are charged with involvement in the attack are the sine qua non for resuming broad dialogue with Pakistan on other significant bilateral issues, including Kashmir. Prime Minister Singh has also

publicly reaffirmed two additional, critical points vis-à-vis Pakistan: that India does not want to see the country fail, and that Pakistan is engaged in efforts to combat the Taliban operating on Pakistani territory.

New Delhi sees a stable, friendly Afghanistan as crucial to India's security, but takes a measured approach to its assistance to Kabul. Indian leaders have underscored their desire to help reestablish a viable civil society in Afghanistan under a strong democratic government that is representative of all ethnic groups in Afghanistan. New Delhi is implementing bilateral civilian assistance programs and reconstruction aid that total approximately \$1.2 billion and probably interprets recent public polling in Afghanistan which indicates that Afghan citizens are favorably disposed towards India's role in country as a positive endorsement of Indian activities to date. India's open assistance programs to date provide only non-combat aid, although there is some discussion in the media about the fact that India is interested in providing more training to Afghan security forces on a cost-effective basis as part of its human capacity building programs. The Government of Pakistan, however, remains concerned that India is using its presence in Afghanistan as a cover for actions that may be destabilizing to Pakistan itself.

Mixed Outlook Middle East

Iraq: Security, Political, and Economic Trends

The positive security trends in Iraq over the past year have endured and overall violence remains at its lowest level since 2003. Although there have been periodic spikes in attacks, terrorist and insurgent groups have not been able to achieve their objectives of reigniting ethno-sectarian tensions or paralyzing the Iraqi Government and we assess they will unlikely be able to do so in the future for three primary reasons:

- First, al-Qa'ida in Iraq's financial struggles, difficulty recruiting new members, and continued Sunni rejection of the group will limit AQI's capacity to undermine the Government of Iraq or gain widespread Sunni Arab support to establish an Islamic Caliphate. Despite its setbacks, we judge that AQI in Iraq will remain committed to conducting attacks into the foreseeable future. Meanwhile, Sunni Arab insurgents lack the cohesion to threaten the Iraqi central government, and we judge the Sunni Arab insurgency will weaken without the US presence as a common motivating factor.
- Second, the Iraqi Government and society have shown great resilience in the face of AQI attacks. Despite high-profile bombings of government buildings in 2009, we did not see any indications of impending communal conflict—such as retaliatory violence, the reappearance of neighborhood militias, or hardened sectarian rhetoric—that followed mass-casualty bombings in 2006.
- Finally, the Iraqi Security Forces (ISF) continue to improve tactical proficiency and operational effectiveness and have maintained security in most urban areas following the 30 June repositioning of US forces out of Iraq's cities.

Although we judge Iraq will be able to maintain a generally secure path, this forecast is dependent on the next government's effective management of Arab-Kurd tensions, continued progress in integrating the Sunni Arabs into the political process, and the ability of the ISF to combat threats to the state. Two key events in 2010—the March 2010 parliamentary elections and the August 2010 withdrawal of US combat forces—will be important indicators of the new government's ability to adapt, as well as manage and contain, conflict.

Arab-Kurd tensions have potential to derail Iraq's generally positive security trajectory, including triggering conflict among Iraq's ethno-sectarian groups. Many of the drivers of Arab-Kurd tensions—disputed territories, revenue sharing and control of oil resources, and integration of peshmerga forces—still need to be worked out, and miscalculations or misperceptions on either side risk an inadvertent escalation of violence. US involvement—both diplomatic and military—will remain critical in defusing crises in this sphere.

The pace of the insurgency's decline will depend largely on Sunni Arab reconciliation with the government, economic opportunities, and whether Sunni expectations for national elections are met. An emboldened, Shia-dominated government that is perceived to back oppressive policies against Sunni Arabs would lead Sunni Arabs to reconsider violence as an effective means to achieve their goals.

Iran continues to train, equip, and fund select Iraqi Shia militant groups to maintain pressure on US forces. The most dangerous of these groups will likely continue attacks on Coalition forces until withdrawal from Iraq is complete.

While the ISF remain in the lead for security operations in urban areas following the 30 June US forces' repositioning out of Iraq's cities and are conducting the majority of counterinsurgency operations independently, they are still developing enabler capabilities including logistics, intelligence, surveillance and reconnaissance.

On the **political front**, Iraqi politicians are actively engaged in campaigning and coalition building ahead of the national legislative election slated for March. In a positive development, politicians from all Iraqi parties responded to the perceived message of the January 2009 provincial returns by working to form cross-sectarian coalitions, but several outstanding issues in the electoral process remain. Recent attempts to disqualify candidates and parties intending to compete in the March elections along with ongoing ethno-sectarian tensions may end up complicating the prospects for a transparent and broadly accepted electoral process. Difficulties in ratifying the election law last fall signal the potential for post-election challenges to its legitimacy by disgruntled or disenfranchised parties.

Iraqi parties and coalitions after the elections are likely to face protracted negotiations to form a government, complicated by constitutionally mandated institutional changes. After the election, Iraqi leaders also will have to address the Constitution's mandate to replace the current presidency structure of one president and two vice presidents, each bearing veto power, with a single president.

Iraq's overall economic performance is likely to remain mixed. Iraq has finalized one oil contract and is set to conclude nine others with international consortiums to expand the development of some of its largest oilfields. These contracts hold the potential to create many thousands of new jobs in Iraqi oil and non-oil sectors and to stimulate economic growth. The oil companies' proposed production increase to 12 million bpd in roughly a decade from the present 2.4 million bpd will be difficult to achieve, however, because of infrastructure and institutional constraints.

- Iraq's 2010 budget proposes to raise capital spending by 60 percent, with increases for the ministries of oil, electricity, water, minerals, health and education. However, Iraq is likely to continue struggling in the near term to attract the foreign investment it needs for re-building infrastructure and economic growth in the non-oil sector. Job creation will remain a significant challenge for the foreseeable future given the country's heavy reliance on the oil sector, which is a source of a limited number of jobs.

The IMF's most recent estimates project real GDP growth for 2010 to be in the 5 to 6 percent range. Inflation continues to subside, declining to roughly 5 percent as of November 2009 from roughly 13 percent in November 2008.

Iran: Growing Authoritarianism and Efforts to Expand its Regional Influence

The Iranian Government faced a major political challenge last summer when a widespread perception of fraud during the June presidential election provoked large-scale popular demonstrations and infighting among regime elites. Conservative hardliners reacted by cracking down on protestors and regime opponents, and hardliners now are using the crisis and its aftermath to further consolidate their power. Despite Iran's internal turmoil, we judge that Tehran's foreign policy will remain relatively constant—driven by a consistent set of goals—and that its efforts to expand its regional influence and ongoing support for terrorist and militant groups will continue to present a threat to many countries in the Middle East and to US interests.

Iran's political crisis has widened splits in the country's political elite and undercut the regime's legitimacy. Although Iranian politics remain in flux, Supreme Leader Khamenei, President Ahmadinejad, and their hardline conservative allies are likely to focus over the next year on consolidating their power.

- Strengthened conservative control will limit opportunities for reformers to participate in politics or organize opposition. The regime will work to marginalize opposition elites, disrupt or intimidate efforts to organize dissent, and use force to put down unrest.

Iran's economic performance has been hurt by softening oil prices and longstanding Iranian policies that discourage the private sector and foreign investment, but the economy is not in crisis. Iran's economy is heavily dependent on oil—hydrocarbons provide 80 percent of its foreign exchange revenue, making Tehran vulnerable to downturns in oil prices. Nonetheless, Iran maintains foreign currency reserves to hedge against a moderate fall in oil prices. International sanctions and pressure have aggravated Iran's economic woes by disrupting and

increasing the cost of international business, slowing some projects and programs, and contributing to Iran's economic slowdown.

- Iran has made contingency plans for dealing with future additional international sanctions by identifying potential alternative suppliers of gasoline—including China and Venezuela. Tehran also has resorted to doing business with small, non-Western banks and dealing in non-US currency for many financial transactions. Iranian opposition press has reported the involvement of the Revolutionary Guard and Iranian intelligence in the smuggling of crude oil as a way of both skirting and profiting from sanctions. Despite these activities and Iran's gasoline subsidy cuts, which could in part serve to mitigate some effects of the embargo, we nonetheless judge that sanctions will have a negative impact on Iran's recovery from its current economic slowdown.

Iran's overall approach to international affairs probably will remain relatively constant and will continue to be driven by longstanding priorities of preserving the Islamic regime, safeguarding Iran's sovereignty, defending its nuclear ambitions, and expanding its influence in the region and the Islamic world. We judge Iran's influence and ability to intervene in the region will remain significant and that it will continue to support terrorist and militant groups to further its influence and undermine the interests of Western and moderate regional states.

In Iraq, we expect Iran will focus on building long-term influence by trying to ensure the continued political dominance of its Shia allies, expand Iran's political and economic ties to Iraq, and limit Washington's influence. We assess Tehran continues to train, equip, and fund select Iraqi Shia militant groups.

In Afghanistan, Iran is providing political and economic support to the Karzai government, developing relationships with leaders across the political spectrum, and providing lethal aid to elements of the Taliban to block Western—especially US—entrenchment in the country. Tehran likely will continue to provide reconstruction, humanitarian, and economic initiatives intended to bolster Afghan stability. Iran also will seek to expand its influence at the expense of the United States and other competitors, and to work with Kabul on border security and counternarcotics initiatives.

In the Levant, Tehran is focused on building influence in Syria and Lebanon and expanding the capability of key allies. Tehran continues to support groups such as Hizballah, HAMAS, and the Palestinian Islamic Jihad (PIJ), which it views as integral to its efforts to challenge Israeli and Western influence in the Middle East.

- Hizballah is the largest recipient of Iranian financial aid, training, and weaponry, and Iran's senior leadership has cited Hizballah as a model for other militant groups. Iran also provides training, weapons, and money to HAMAS to bolster the group's ability and resolve to maintain its armed resistance to Israel and opposition to Israeli-Palestinian peace negotiations.

Syria

Bashar al-Assad has strengthened his hold on power in Syria since becoming President in June 2000, and his standing has been augmented by his perceived success in weathering regional crises and international pressure, and by the regime's ability to highlight Syria's relative insulation from violence in Iraq. Within Syria, Asad has preserved the pillars of regime control established by his father while gradually using personnel turnover to appoint loyalists and expand his power base.

- Syrian leaders continue to exploit "resistance" to Israel and rejection of US pressure to unify Syrians in support of the regime, despite broad dissatisfaction with economic conditions, some disappointment at the lack of political reforms, and quiet resentment by the Sunni majority at domination by the Alawi minority.
- Damascus remains generally uncooperative with the IAEA investigation of its covert nuclear efforts following the destruction of its secret nuclear reactor in September 2007. Syria also maintains a chemical weapons programs and an active missile program, with some missiles that can reach 700 kilometers.

The Syrian regime continues to wield significant influence in Lebanon, arming and funding its allies, while simultaneously taking steps toward normal state to state relations.

Syrian relations with the Maliki government in Iraq remain strained following Baghdad's accusation that Syrian-based Ba'thists are behind the 2009 bombings of several government ministries there. Overall we assess that Damascus will continue to seek improved political and economic ties to Baghdad, while also permitting foreign fighters, Ba'thists, and other Sunni oppositionists to transit or operate within Syria. Damascus probably will, however, act against terrorist and foreign fighter elements it perceives as a threat to the Asad regime.

Yemen

Yemen faces a number of security, political, economic, and humanitarian challenges including the activity of Yemen-based al-Qa'ida in the Arabian Peninsula, the Huthi insurgency in the North, rising southern secessionist activity, and a weak economy. Yemen's declining oil reserves also threaten to reduce the government's main source of revenue. Several regional states worry that a faltering Yemen could become a source of regional instability. I discuss Yemen more fully in my classified statement.

Israeli-Palestinian Peace Dynamics

Israel and the Palestinians endorse a negotiated two-state solution to the conflict, but have very different concepts of this formula and how it should be implemented. Palestinians want Israel to freeze settlement construction, including in East Jerusalem, as a precondition to final-status negotiations.

Israel is pressing the Palestinians to resume peace talks immediately and is observing a 10-month moratorium on new settlement construction that excludes East Jerusalem. Israel has refused to deal with HAMAS until it meets the Quartet conditions, which are to recognize

Israel's right to exist, forswear violence, and agree to abide by previous Israeli-Palestinian agreements. Israeli Prime Minister Netanyahu has advocated steps to improve the quality of life for West Bank Palestinians by enhancing economic development and easing security restrictions, but Gaza remains isolated.

- The ability of HAMAS and other Palestinian groups to act as spoilers is complicating the process. Palestinian reconciliation talks brokered by Egypt remain deadlocked.

Continuing stagnation in the negotiations process could undercut Palestinian support for a two-state approach, although these proposals for now remain at the rhetorical stage. Frustration over the stalemate has prompted some Palestinians to argue in favor of equal rights within a single state that would encompass Israel, the West Bank and the Gaza Strip.

Palestinian Authority President Abbas, whose threat to resign has created a stir among Fatah, the PA, the PLO, and the international community, has been asked to stay on as President. Abbas has postponed presidential and legislative elections slated for 2010 because of HAMAS' refusal to participate.

Prospects for Israeli-Syrian Peace Talks

Since Prime Minister Netanyahu assumed office in March 2009, Syria has stated its preference for resuming talks where they left off with the Olmert government, incorporating the informal understandings reached during those talks. Israel says it would enter direct talks "with no preconditions." Damascus continues to seek a full Israeli withdrawal from the Golan Heights, a position to which the Netanyahu government is unwilling to commit ahead of negotiations.

China's Continuing Transformation

China's international profile rose over the past year, partly because of Beijing's response to the global economic crisis. Notwithstanding some stresses and potentially troublesome long-term effects inside China, Beijing became a more prominent regional and emerging global player as the international community sought to recover from the crisis. After devoting considerable resources toward sustaining its own economy—including a \$600 billion stimulus package and more than \$1.4 trillion in new lending by banks in 2009—China assumed a central role in the G-20 and has served as one of the key engines for global recovery, reinforcing perceptions of its increasing economic and diplomatic influence.

China's growing international confidence and activism has been fueled in part by the success of its own economic recovery to date, and has been partly reflected in greater Chinese cooperation with the United States and other countries in several areas. For example, last year Beijing contributed to the G-20's pledge to increase IMF resources, deployed naval forces to the international antipiracy operation in the Gulf of Aden, and supported new UN Security Council sanctions against North Korea. Beijing has tempered its cooperation, however, in areas where China views its interests or priorities as different from ours, such as on Iran.

In addition its pursuit of international status and influence, Beijing's foreign policy—especially its engagement with the developing world—is still heavily driven by the imperative of sustaining growth at home by securing energy supplies and other key commodities and cultivating access to markets and capital abroad. This focus, however, has generated accusations of poor labor and environmental practices abroad and predatory trade practices—and has revealed the limits to the success of its charm offensive around the world. Beijing's commercial interests also limit its readiness to cooperate with Washington in dealing with such countries as Iran and Sudan.

Behind its external ambitions and increasing international activism, China's core priority remains ensuring domestic stability. More fundamentally, Chinese leaders are intensely focused on shoring up public support for the Communist Party and its policies. President Hu's ability to reinvigorate his efforts to balance fast economic growth with more equitable development, and to enhance the Party's legitimacy, will depend on several variables, especially the sustainability of China's economic recovery. Succession politics also will begin affect leadership decisionmaking in 2010.

In contrast to recent years, cross-Straits relations are relatively stable and positive, with Beijing and Taipei having made major progress on economic deals and Taiwan's involvement in some international organizations. Nevertheless, the military imbalance continues to grow further underscoring the potential limits to cross-Straits progress.

People's Liberation Army Modernization

Preparation for a Taiwan conflict continues to dominate PLA modernization and contingency plans and programs, and is likely to remain the driving factor at least through 2020. However, China's international interests have expanded, Beijing has contemplated whether and how to expand the People's Liberation Army's (PLA) international role to protect and promote those interests. The leadership increasingly sees nontraditional military missions, such as humanitarian relief and peacekeeping operations, as appropriate to China's great power status as a way to demonstrate its commitment to the international system. This reflects both a perceived need and an opportunity: the need to protect China's interests and access to resources and sea lines of communications (SLOCs), and the opportunity to enhance China's global stature through involvement in activities such as humanitarian relief and peacekeeping operations. The PLA, however, will resist participation in missions that it sees as US-dominated or focused on achieving US objectives.

The PLA's capabilities and activities in four key areas pose challenges to its neighbors and beyond Taiwan, including China's military relationships across the developing world; China's aggressive cyber activities; its development of space and counterspace capabilities; and its expansive definition of its maritime and air space with consequent implications for restricted freedom of navigation for other states. The PLA is already demonstrating greater confidence and activism in such areas as asserting China's sovereignty claims and in military diplomacy.

Important PLA modernization programs include: ballistic and cruise missile forces capable of hitting foreign military bases and warships in the western Pacific; anti-satellite (ASAT) and

electronic warfare weapons to defeat sensors and information systems; development of terrestrial and space-based, long-range intelligence, surveillance, and reconnaissance systems to detect, track, and target naval, air, and fixed installations; and continuing improvements to its increasingly capable submarines to place naval surface forces at risk. Many of these programs have begun to mature and improve China's ability to execute an anti-access and area-denial strategy in the Western Pacific.

Outlook for Russia

The role Moscow plays regarding issues of interest to the United States is likely to turn on many factors, including developments on Russia's periphery and the degree to which Russia perceives US policies as threatening to what its leadership sees as vital Russian interests.

There have been encouraging signs in the past year that Russia is prepared to be more cooperative with the United States, as illustrated by President Medvedev's agreement last summer to support air transit through Russia of lethal military cargo in support of coalition operations in Afghanistan and Moscow's willingness to engage with the United States on constructive ways to reduce the nuclear threat from Iran. I remain concerned, however, that Russia looks at relations with its neighbors in the former Soviet space—an area characterized by President Medvedev as Russia's "zone of privileged interests"—largely in zero-sum terms, vis a vis the United States, potentially undermining the US-Russian bilateral relationship. Moscow, moreover, has made it clear it expects to be consulted closely on missile defense plans and other European security issues.

On the domestic front, Moscow faces tough policy choices in the face of an uptick in violence in the past year in the chronically volatile North Caucasus, which is fueled in part by a continuing insurgency, corruption, organized crime, clan competition, endemic poverty, radical Islamist penetration, and a lagging economy that is just beginning to recover from the global economic crisis. Some of the violence elsewhere in Russia, such as a deadly train bombing in late November 2009, may be related to instability in the North Caucasus.

In addressing nationwide problems, Medvedev talks about Russia's need to modernize the economy, fight corruption, and move toward a more rule-of-law-based and pluralistic political system, but he faces formidable opposition within the entrenched elite who benefit from the status quo. Turbulence in global energy markets was a painful reminder to Moscow of the Russian economy's overdependence on energy, dramatizing the need for constructive steps toward economic modernization and diversification. However, moving forward on issues such as reforming Russia's state corporations or creating conditions more conducive to foreign investors could produce a backlash by those forces who might lose from competition.

The Military Picture

Russia continues to rely on an array of strategic and non-strategic nuclear forces, advanced aerospace defenses, and asymmetric capabilities as the military component of its security strategy. Russia is now implementing its most serious military reform plans in half a century and ultimately aims to shed the legacy of the Soviet mass mobilization army and create a leaner,

more professional, more high-tech force over the next several years. Reform faces challenges from negative demographic trends, institutionalized corruption, and budget uncertainties in the wake of the global financial crisis.

- Moscow for the first time looked to the West to import modern weapons systems. Russia is pursuing post-START negotiations with the US while modernizing its nuclear triad to maintain a credible deterrent.

In the conventional forces realm, Moscow remains capable of militarily dominating the former Soviet space; although Russia's experience in the August 2008 Georgia conflict revealed major shortcomings in the Russian military, it also validated previous reform efforts that sought to develop rapidly-deployable forces for use on its periphery. Russia continues to use its military in an effort to assert its great power status and to project power abroad, including through the use of heavy bomber aviation patrols, out-of-area naval deployments, and joint exercises; some of these activities can have greater demonstrative impact than operational military significance.

Latin America Stable, but Challenged by Crime and Populism

Democratic governance remains strong in Latin America and the Caribbean where a vast majority of countries are committed to representative democracy, economic liberalization, and positive relations with the United States. In some countries, however, democracy and market policies remain at risk because of the continued threats from crime, corruption, and poor governance. In most states, serious economic problems have added further stress to democratic institutions. In parts of Mexico and Central America, for example, powerful drug cartels and violent crime undermine basic security. In other countries such as Venezuela, Bolivia, and Nicaragua, elected populist leaders are moving toward a more authoritarian and statist political and economic model, and they have banded together to oppose US influence and policies in the region. Venezuelan President Hugo Chavez has established himself as one of the US's foremost international detractors, denouncing liberal democracy and market capitalism and opposing US policies and interests in the region.

The region is showing signs of a slow economic recovery because countercyclical monetary and fiscal policies, coupled with rising commodity prices, helped most countries in the region stabilize by mid 2009. We judge that economic activity dropped by about 2.5 percent in 2009, led by Mexico with about a 7 percent decline. Latin American economies are expected to grow, on average, about 3 percent in 2010, but until a more robust recovery in the United States and Europe takes hold, regional economic growth will be modest. Exports from the region in 2009 have been down 25 to 30 percent from 2008, and we expect foreign direct investment will drop by about 30 percent. Besides Mexico, smaller countries in Central America and the Caribbean have been hit hard because of their close trade ties to the United States, falling tourism earnings, and declining remittances.

Mexico: Democracy Strong, But Faces Severe Test

President Calderon of Mexico has political backing and popular support for strengthening the rule of law in the face of violence, corruption, and criminal influence of his countries' powerful drug cartels. About 90 percent of all the cocaine that reaches the US from South America transits via Mexico, providing an enormous source of revenue and influence for illicit drug traffickers and giving gangs the means to threaten institutions, businesses, and individual citizens of Mexico. According to National Drug Intelligence Center, Mexican and Colombian drug trafficking organizations annually earn between \$18-39 billion from drug sales in the United States.

Calderon is determined to break the cartels power and influence and reduce drug flows despite slow progress and continued high levels of violence. He has made the war on crime a key feature of his presidency, and his approval ratings remain solid, despite the fact that drug related violence claimed more than 7,000 lives last year. Opposition political parties support a strong counter drug effort, and the Mexican military remains committed to the task. We assess that the drug cartels probably will not destabilize the political situation even with escalated violence.

Brazil: A Growing Success

Brazil, with a stable, competitive democracy and robust economy, is one of the success stories of the region. Brazil's political system is well established and less vulnerable to populist authoritarian ambitions and its middle class has grown impressively to more than 50 percent of the population. Brazil will elect a new president this year as the popular President Luiz Inacio Lula da Silva steps down after two terms, and whoever wins probably will pursue responsible pro-growth economic policies. As an impressive sign of its economic health, Brazil suffered relatively little from the world financial crisis, and its GDP will probably grow at a rate of 5 percent this year.

Brazil, however, has crime and drug problems that will persist. Its major cities are among the region's most violent, and according to a UN study, Brazil is one of the world's largest consumers of cocaine. In Rio de Janeiro, the site of the 2016 Olympics, authorities have initiated a program to recapture poor neighborhoods that are under the sway of powerful criminal gangs. The United States is working closely with Brazilian counterparts on counterdrug operations, particularly with the Federal Police.

Overall, US-Brazilian relations are positive, although lately Brasilia has made public its strong differences with us on climate change, our Defense Cooperation Agreement with Colombia, and our handling of the Honduras crisis. Nevertheless, we see Brasilia as a valuable partner in promoting hemispheric stability and democratic values.

Central America At Risk

Mounting crime and corruption in the northern tier of Central America—El Salvador, Guatemala, and Honduras—are challenging the ability of those democratic governments to provide for basic security and the rule of law. High homicide rates make the region among the most violent in the world. According to the United Nations Development Program, El Salvador,

Guatemala, and Honduras have homicide rates five to seven times higher than the world average of nine per 100,000 people. El Salvador last year had a homicide rate of 71 per 100,000, the highest rate in Latin America. At the same time, the governments' capacity to respond effectively is limited by weak institutions and endemic corruption. The challenges to regional governments are compounded by the severe economic downturn in most of the region, increased poverty owing to the loss of jobs, and reduced remittances from legal and illegal migrants to the US.

Despite holding peaceful elections last November, Honduras still faces political uncertainty and partial diplomatic isolation resulting from the forcible removal of President Manuel Zelaya from power last June. Newly elected President Porfirio Lobo will have to struggle to achieve international recognition and will face continued opposition from Zelaya's more radical supporters at home.

Venezuela: Leading Anti-US Regional Force

President Chavez continues to impose an authoritarian populist political model in Venezuela that undermines democratic institutions. Since winning a constitutional referendum in early 2009 that removed term limits and will permit his reelection, Chavez has taken further steps to consolidate his political power and weaken the opposition in the run up to the 2010 legislative elections. The National Assembly passed a law that shifted control of state infrastructure, goods, and services to Caracas in order to deprive opposition states and municipalities of funds. Chavez has curtailed free expression and opposition activities by shutting down independent news outlets, harassing and detaining protestors, and threatening opposition leaders with criminal charges for corruption. Chavez's popularity has dropped significantly in recent polls as a result of his repressive measures, continued high crime, rising inflation, water and power shortages, and a major currency devaluation, raising questions about his longer term political future.

On foreign policy, Chavez's regional influence may have peaked, but he is likely to continue to support likeminded political allies and movements in neighboring countries and seek to undermine moderate, pro-US governments. He has formed an alliance of radical leaders in Cuba, Bolivia, Ecuador, Nicaragua, and until recently, Honduras. He and his allies are likely to oppose nearly every US policy initiative in the region, including the expansion of free trade, counter drug and counterterrorism cooperation, military training, and security initiatives, and even US assistance programs.

- In Bolivia, President Evo Morales easily was reelected in December 2009 for another five year term after changing the Constitution. He is likely to continue to pursue an authoritarian, statist domestic agenda and an anti-US foreign policy. Relations with the US remain poor, and Morales has sharply curtailed cooperation with US counterdrug programs since expelling the US Ambassador in 2008 and three dozen DEA personnel in early 2009.
- Ecuadorean President Rafael Correa, after modifying the Constitution to permit himself another term, was reelected in 2009. Relations with the US have not been close especially since Correa ended US use of the Manta airbase in 2008 and reduced cooperation on counternarcotics programs.

Chavez's relationship with Colombia's President Uribe is particularly troubled. His outspoken opposition to Colombia's Defense Cooperation Agreement with the US has led to an increase in border tensions. Chavez has called the agreement a declaration of war against Venezuela. He has restricted Colombian imports, warned of a potential military conflict, and continued his covert support to the terrorist Revolutionary Armed Forces of Colombia (FARC).

Chavez Embraces Extra-Regional Actors

Chavez will continue to cultivate closer political, economic, and security ties with Iran, Russia, and China. He has developed a close personal relationship with Iranian President Ahmadini-Nejad, and they have signed numerous agreements, primarily on joint energy ventures. The two countries also have conducted regular flights between their two capitals since 2007. Following Chavez's lead, Bolivia, Ecuador and Nicaragua have increased their ties to Iran.

Most of the agreements Moscow has signed with Chavez relate to arms sales and investments in the Venezuelan energy sector. Over the past five years, Venezuela has purchased more than \$6 billion in weapons from Moscow, including 24 SU30MK multi-role fighters, along with helicopters, tanks, armored personnel carriers, air defenses missiles, and small arms. On paper, Venezuela's acquisitions are impressive, but their armed forces lack the training and logistics capacity to use these to their full capability. Yet, the scale of the purchases has caused concern in neighboring countries, particularly Colombia, and risks fueling a regional arms race. In addition to the arms deals, Russian naval warships and long range strategic bombers visited Venezuela in late 2008 to demonstrate Moscow's ability to deploy its military forces into the region.

Cuban Economy Under Stress

Cuba has demonstrated few signs of wanting a closer relationship with the United States. Without subsidized Venezuela oil shipments of about 100,000 barrels per day, the severe economic situation would be even worse. President Raul Castro fears that rapid or significant economic change would undermine regime control and weaken the revolution, and his government shows no signs of easing his repression of political dissidents. Meanwhile illegal Cuban migration to the US, which averaged about 18,000 per year from 2005 to 2008, decreased by almost 50 percent in 2009 mainly because of the US economic slowdown and tightened security measures in Cuba. While we judge the chance of a sudden Cuban mass migration attempt is low, if the regime decides it cannot cope with rising public discontent over economic conditions, it could decide to permit more Cubans to leave the island.

Haiti: Earthquake Threatens Viability of State

The 7.3-magnitude earthquake that devastated Port-au-Prince, Haiti on 12 January 2010 killed and injured hundreds of thousands—in a city of nearly three million people—largely wiping out the international effort to promote nation-building over the last two decades. With the destruction of entire neighborhoods, logistics infrastructure, and key public buildings, including the UN headquarters, Haiti faces a daunting rebuilding challenge far beyond its internal capacity to address. The long-term commitment and support of the international community will be required to help it recover. Even with a robust, long-term international

commitment, the threat of political and economic instability will always be present, as will the potential threat of maritime mass migration by Haitians desperate to reach the United States.

Continued Instability in Africa

Sub-Saharan African nations continue to show progress in developing more democratic political institutions and pursuing policies that encourage economic growth and development and improve living conditions. More African countries than ever before can be classed as democratic or partially democratic, and continent-wide economic growth has proven surprisingly resilient in the face of the worldwide economic downturn. Nevertheless, economic and political progress in Africa remains uneven, varies greatly from nation to nation, and is still subject to sudden reversal or gradual erosion. Africa has experienced recent backsliding as democratic advances have been reversed in several countries. The global financial crisis has slowed economic growth following a decade of relatively good performance in many countries.

The daunting array of challenges facing African nations make it highly likely in the coming year that a number will face new outbreaks of political instability, economic distress, and humanitarian crises, adding to the concerns already arising from ongoing, seemingly intractable conflicts that demand US attention and response.

Sudan: Facing Two Crises

The 2005 Comprehensive Peace Agreement (CPA) brought a tenuous peace between northern and southern Sudan, but many observers warn that the risk of renewed conflict is rising as we approach 2011, when the south is set to vote in a referendum on southern independence. Khartoum and Juba are running out of time to resolve disputes over the north-south border—along which most of Sudan's oil reserves lie—or to formulate a post-2011 wealth-sharing deal, which we judge are key to preserving the peace. While a renewed conflict could be limited to proxy fighting or skirmishes focused around individual oilfields, both sides' arms purchases indicate their anticipation of more widespread conflict. Southern leaders rhetoric suggests that they are increasingly determined to secure independence in 2011—whether by referendum or unilateral declaration if they believe Khartoum will thwart a vote—but the south is poorly prepared for the post-2011 period. The southern government is spending a large amount of its revenues on military force modernization while failing to provide basic services, curb rampant corruption, or curtail escalating tribal clashes. Some international observers have suggested the south will become a failed state unless the international community assumes a significant role in development, security, and governance.

The conflict in western Sudan's Darfur region has become less deadly but more complicated since the government began its counterinsurgency campaign against the rebels in 2003. Overall levels of violence have declined sharply since 2005, but a wide body of reporting points to a proliferation of banditry, ethnic clashes, and inter-rebel fighting. Darfur almost certainly will continue to experience sporadic bouts of fighting, especially as the government and rebels try to secure stronger negotiating positions in peace talks. Some of Darfur's fractured rebel groups are amenable to reunification efforts led by US and UN mediators, but the two most important rebel leaders have remained intransigent as they maneuver for advantage. The number of displaced

persons has climbed steadily to nearly 3 million, and any government efforts to resettle them could spark an even greater humanitarian emergency.

Somalia's TFG: Barely Hanging On

In the next year, the Transitional Federal Government (TFG) will continue to fight al-Shabaab and other factions for control of Somalia. On-going support from the African Union Mission in Somalia (AMISOM) and other international governments remains critical to TFG efforts to combat al-Shabaab and other factions and extend its reach into central and southern Somalia. While focusing on security is vital, the TFG also must begin to provide much needed public services and broaden representation among various Somali clans and sub-clans in order to win popular support and weaken the appeal of al-Shabaab. Al-Shabaab—which maintains ties to the small number of al-Qa'ida members who continue to operate in East Africa—is certain to continue planning attacks on TFG, Western, and AMISOM targets. Al-Shabaab has assumed control over many local revenue-generating structures—including ports, airports, roads, and water resources—since taking over large portions of central and southern Somalia last year.

Nigeria: Serious Challenges Remain

Nigeria, Africa's most populous country and a major oil and gas producer and home to as many as 70 million moderate Muslims will continue to face serious social, economic, and security challenges over the next year. Many important electoral and governmental reforms have stalled as Nigeria's political elites politick, buy support, pursue personal gain, and jockey for position ahead of the next national elections scheduled for 2011. Many observers fear communal conflict and political violence will increase in the run-up to these elections, which could lead to a deeply flawed poll. As the Niger Delta amnesty agreement between the government and militants continues to be stalled, we worry that criminality and conflict in the restive region will resume in the medium term, complicating US efforts to engage on security and energy issues. Communal violence probably will continue to outbreak suddenly, with little or no warning, especially in parts of the northern and central regions of the country where ethno-religious tensions remain high.

Guinea: Not Yet Stable

Although we cannot discount the possibility that the resource-rich West African country will descend into inter-ethnic fighting that further drags it down and threatens the fragile stability in Liberia, Sierra Leone, and Cote d'Ivoire, the departure from the scene in December of erratic junta leader Moussa Dadis Camara, after a junta colleague attempted to kill him, has opened a narrow window of opportunity for defusing a volatile situation. Guinea's interim leaders have pledged to work toward democratic elections. The new Prime Minister of the transitional government took over on 26 January and is tasked to prepare elections in six months. Pro-Camara loyalists, however, remain a threat to the transitional government. Labor unions may call for renewed street protests if political and economic reforms to not arrive quickly enough.

For now, Guinea's inept military junta, which seized power following the death of President Conte in 2008, is piloting the resource-rich West African country until the return to civilian rule. Should they fail, they will take the country to instability and possibly a humanitarian crisis. The country could, given its current trajectory, descend into interethnic fighting and destabilize neighboring Liberia, Sierra Leone, and Cote d'Ivoire, all post-conflict states.

Stalled Democratization

The number of African states holding elections continues to grow although few have yet to develop strong, enduring democratic institutions and traditions. In many cases the “winner-take-all” ethos predominates and risks exacerbating ethnic, regional, and political divisions. Ethiopia, Sudan, Guinea, Togo, Central African Republic, Burundi, Rwanda, Tanzania, Burkina Faso, Chad, and Somaliland all are scheduled to hold national elections in 2010. In Ethiopia, Prime Minister Meles and his party appear intent on preventing a repeat of the relatively open 2005 election which produced a strong opposition showing. National elections in Sudan in 2010 run the risk of deepening north/south split and complicating the important 2011 referendum on southern Sudanese independence. In Madagascar, prospects are looking increasingly poor that the current transitional government can hold together in order to carry out proposed elections in 2010.

Prospects for greater political liberalization and democratization are also likely to be limited in nations not scheduled to hold elections. In Senegal, once a healthy democracy, octogenarian President Abdoulaye Wade appears to want to maintain authority for a third term or to handover of power to his son. In Niger, two-term President Mamadou Tandja revoked the Constitution and over the opposition of the country’s judiciary and legislature in order to remain in office. In Uganda, President Yoweri Museveni, who has dominated this one-party state since 1986, not undertaking democratic reforms in advance of elections scheduled for 2011.

Important to US security interests in Africa is the continued inability of Kenya to deal with the fallout from the deeply flawed 2007 national elections. Kenya’s political elite, some of whom may yet be indicted by the International Criminal Court (ICC) for encouraging violence during the last election, have made little progress on reforms that address the underlying causes of the post-election violence, and ethnic tensions remain at the surface, potentially leading to new and violent clashes that the government will have difficulty controlling. Given Kenya’s role as a regional economic hub and primary entry point for goods and services flowing into East Africa, an unstable Kenya would have significant impact on neighboring states as well.

In Zimbabwe, President Robert Mugabe in the coming year appears intent on continuing to cling to power, stonewalling domestic and international pressure to reform, and resisting full implementation of the power-sharing agreement he agreed to with Prime Minister Morgan Tsvangirai. Although the economy has shown some signs of revival, little political improvement is likely as long as Mugabe retains the support of the military and the security services. Even if Mugabe were to leave office or die we expect that the ruling ZANU-PF party insiders, military, and security services would join to ensure that a successor did not threaten their interests or grip on power.

Persistent Vulnerability to Humanitarian Crises, Natural Disasters

Many African nations will remain food insecure and at risk of experiencing a humanitarian crisis. Most African governments continue to lack the capacity to respond to these crises whether as a result of man-made or natural causes, and will quickly look to the international community and already overburdened NGOs for help. The humanitarian crisis in the Horn of Africa, already the world’s worst and largest, may become even worse from continued fighting

in Somalia, misguided economic policies in Ethiopia, and political uncertainty in Sudan. An ongoing drought coupled with political instability in Kenya in 2008 left 10 million people in need of aid compared to 3 million in 2007. Although the creation of a new coalition government in Zimbabwe has stabilized the economy and the food situation somewhat, President Mugabe and his party whose policies directly led to the food crisis continue to be the dominant political power.

The humanitarian situation in the Democratic Republic of the Congo (DRC) in the year ahead will remain particularly difficult and resistant to resolution. Despite recent setbacks for some rebel forces in Eastern Congo and improved relations between the DRC and Rwanda, the eastern Congo remains a regional political, security, and humanitarian problem which has claimed the lives of millions, led to the displacement of millions more, and resulted in widespread sexual violence committed by both rebel and government forces. Competition to exploit the area's significant mineral wealth has raised the stakes for competing forces even higher and will continue to make resolution of the conflict more difficult.

Mass Killings

The mass killing of civilians—defined as the deliberate killing of at least 1000 unarmed civilians of a particular political identity by state or state-sponsored actors in a single event or over a sustained period—is a persistent feature of the global landscape. Within the past three years, the Democratic Republic of the Congo (DRC), and Sudan all suffered mass killing episodes through violence, starvation, or deaths in prison camps. Sri Lanka may also have experienced a mass killing last spring: roughly 7,000 civilians were killed during Colombo's military victory over the Liberation Tigers of Tamil Eelam (LTTE), according to UN estimates.

The risk for mass killing is driven by the presence of ongoing internal conflict or regime crises, combined with relatively poor socioeconomic conditions, international isolation, recent protest activity, discriminatory policies, or frequent leadership turnover. In such contexts, mass killings are typically deliberate strategies by new or threatened elites to assert state or rebel authority, to clear territory of insurgents, or to deter populations from supporting rebels or anti-government movements.

Looking ahead over the next five years, a number of countries in Africa and Asia are at significant risk for a new outbreak of mass killing. All of the countries at significant risk have or are at high risk for experiencing internal conflicts or regime crises and exhibit one or more of the additional risk factors for mass killing. Among these countries, a new mass killing or genocide is most likely to occur in Southern Sudan.

Potential Flashpoints in Eurasia and Balkans

The unresolved conflicts of the Caucasus provide the most likely flashpoints in the Eurasia region. Moscow's expanded military presence in and political-economic ties to Georgia's

separatist regions of South Ossetia and sporadic low-level violence increase the risk of miscalculation or overreaction leading to renewed fighting.

Although there has been progress in the past year toward Turkey-Armenia rapprochement, this has affected the delicate relationship between Armenia and Azerbaijan, and increases the risk of a renewed conflict over Nagorno-Karabakh.

Economic crisis and political competition among top Ukrainian leaders pose the greatest risk of instability in Ukraine, particularly in connection with this year's presidential election. Competition between President Yushchenko and his primary rivals, Prime Minister Tymoshenko and Party of Regions leader Yanukovych resulted in economic reform being put on the back burner and complicated relations with Russia over gas payments. Moreover, noncompliance with the conditions set by international financial institutions has put the country's economy in further jeopardy.

The regimes of Central Asia—Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan—have been generally stable so far, but predicting how long this will remain the case is difficult. The region's autocratic leadership, highly personalized politics, weak institutions, and social inequality make predicting succession politics difficult and increase the possibility that the process could lead to violence or an increase in anti-US sentiment. There is also concern about the ability of these states, especially Kyrgyzstan, Tajikistan, and Turkmenistan, to manage the challenges if Islamic extremism spreads to the region from Pakistan and Afghanistan. The risks are compounded by the economic crisis, which has resulted in reduced remittances to the region, and by perennial food and energy shortages in some parts of Central Asia. Competition over water, cultivable land, and ethnic tensions could serve as sparks for conflict.

Events in the **Balkans** will again pose the principal challenges to stability in Europe in 2010. Bosnia-Herzegovina's (BiH) continuing uneasy inter-ethnic condominium and the issue of the Serb minority in Kosovo, particularly in northern Kosovo, remain sources of tension requiring Western diplomatic and security engagement. We assess that the US and Europe retain significant influence in the Western Balkans. The nature of their engagement—including the ability of Washington, Brussels, and key EU members states to work together and present a common front—will importantly influence the region's future course.

I remain concerned about Bosnia's future stability. While neither widespread violence nor a formal break-up of the state appears imminent, ethnic agendas still dominate the political process and reforms have stalled because of wrangling among the three main ethnic groups. The sides failed to agree on legal changes proposed jointly by the EU and the US at the end of 2009, undercutting efforts to strengthen the central government so that it is capable of taking the country into NATO and the EU. Bosnian Serb leaders seek to reverse some reforms, warn of legal challenges to the authority of the international community, and assert their right to eventually hold a referendum on secession, all of which is contributing to growing interethnic tensions. This dynamic appears likely to continue, as Bosnia's leaders will harden their positions to appeal to their nationalist constituents ahead of elections this fall.

More than 60 nations, including 22 of 27 EU members, have recognized the state of Kosovo, but in the coming years Pristina will remain dependent on the international community for economic and development assistance as well as for diplomatic and potentially security support to further consolidate its statehood. Much of the Serb population still looks to Belgrade and is resisting integration into Kosovo's institutions, though this appears to be slowly changing in Kosovo's south. Kosovo government influence in the Serb-majority area in the north of Kosovo is extremely weak. NATO's presence, although reduced, is still needed to deter violence, and its mentoring of the nascent Kosovo Security Force is crucial to the force's effectiveness and democratic development.

Serbia's leaders espouse a European future and President Tadic desires quick progress toward Serbian EU membership, but Belgrade shows no sign of accepting Kosovo's independence or accepting constructively. Belgrade appears to be awaiting an advisory opinion by the International Court of Justice on the legality of Pristina's declaration of independence—expected mid-year—before determining how to advance its claim on Kosovo. Serbia frequently turns to Moscow for political backing and economic support.

Regional Impacts of Climate Change

Before I discuss the Intelligence Community's assessment of the regional impacts of climate change, I would like to note that because we do not conduct climate research to produce these assessments, we reach out to other US Government entities that have expertise in this area. We also do not evaluate the science of climate change per se, nor do we independently analyze what the underlying drivers of climate change are or to what degree climate change will occur.

We continue to assess that global climate change will have wide-ranging implications for US national security interests over the next 20 years because it will aggravate existing world problems—such as poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions—that threaten state stability. (In my classified statement, I discuss the recent UN-sponsored climate change conference in Copenhagen.) Climate change alone is highly unlikely to trigger failure in any state out to 2030, but it will potentially contribute to intra- or, less likely, interstate conflict. Water issues, which have existed before the recent changes in the climate, will continue to be major concern. As climate changes spur more humanitarian emergencies, the demand may significantly tax US military transportation and support force structures, resulting in a strained readiness posture and decreased strategic depth for combat operations. Some recent climate science would indicate that the effects of climate change are accelerating, particularly in the Arctic region and on mountain glaciers that impact critical watersheds.

For India, our research indicates the practical effects of climate change will be manageable by New Delhi through 2030. Beyond 2030, India's ability to cope will be reduced by declining agricultural productivity, decreasing water supplies, and increasing pressures from cross-border migration into the country.

China is developing a toolkit to manage disruptions caused by climate change and its economic growth has the potential to increase its mitigation capacity through 2030. But it remains to be seen if this capacity will be fully used. The ability of China to cope beyond 2030 will be reduced owing to increased climate-driven internal migration, local water scarcities, and changes in agricultural productivity and demand.

For Russia, our research indicates that climate change will have significant direct and indirect impacts on their energy sector, which is a key determinant of Russia's economic future and state capacity. The thawing of the permafrost across vast stretches of Russia, including areas in which there are oil and gas deposits and over which there are pipelines, will both put existing infrastructure at risk and make its modernization and replacement more difficult. Yet, Russia has a greater capacity to respond to the negative effects of climate change than some industrialized countries and most underdeveloped ones, including robust capacities in analysis and forecasting and in emergency response, which could help mitigate the risk of climate change leading to economic instability.

For Mexico, the Caribbean, and Central America, water scarcity may spark political, economic, and social conflicts. Migratory trends, with Mexico and the United States accepting a large percentage of immigrants, are likely to continue and may accelerate crime conducted by gangs and criminal elements from the migrating populations.

State capacity in many Southeast Asian countries is weakened by poor governance, corruption, and the influence of vested economic interests. With the exception of Indonesia and Vietnam, many of the region's political leaders are not yet focused on the threat posed by climate change. Dam building on the Mekong River Basin could pose a significant threat to agriculture, fisheries, and human habitation in Cambodia and Vietnam's Mekong Delta. Large-scale migration from rural and coastal areas into cities and across borders could increase friction between diverse social groups already under stress from climate change.

- Together with the Maldives, which is at risk of complete obliteration, these two countries are likely to remain powerful advocates for developed nations to remember the human costs of climate change.

In North Africa climate change pressures will be pervasive but state failures attributable solely to climate change to 2030 are not likely. The effects of climate change in North Africa are likely to exacerbate existing threats to the region's water and food resources, economies, urban infrastructure, and sociopolitical systems. Cities probably will face deteriorating living conditions, high unemployment, and frequent civil unrest. Climatic stress coupled with socioeconomic crises and ineffective state responses could generate localized social or governmental collapses and humanitarian crises. Climate change will likely increase the already substantial emigration of North Africans to Europe. The region also will serve as a route for transmigration if Sub-Saharan Africans flee severe climatic stress. North Africa will absorb an increasing proportion of Europe's attention and resources.

Arctic states have such common goals as environmental protection, shipping safety, effective search and rescue (SAR), and commerce development, they do not fully agree on how to achieve

them. Our research indicates the widespread use of the Arctic for commercial purpose is hindered by the absence of reasonable insurance, which will come only with Arctic coastal infrastructure development, agreed safety standards for commercial vessels, and adequate SAR capability.

Strategic Health Challenges and Threats

The current influenza pandemic is the most visible reminder that health issues can suddenly emerge from anywhere in the globe and threaten American lives and US strategic objectives. It also highlights many of the United States' critical dependencies and vulnerabilities in the health arena. But like an iceberg, the visible portion is just a small fraction of the myriad of health issues that will likely challenge the United States in the coming years. Significant gaps remain in disease surveillance and reporting that undermine our ability to confront disease outbreaks overseas or identify contaminated products before they threaten Americans. The policies and actions of foreign government and non-state actors to address health issues, or not address them, also have ripple effects that impair our ability to protect American lives and livelihoods and impair Washington's foreign policy objectives.

In my threat assessment last year, I noted that "the most pressing transnational health challenge for the United States is the potential emergence of a severe influenza pandemic." Unknown to everyone at the time, the 2009-H1N1 influenza virus had already started spreading by late March. By the time anyone was aware of the new virus, thousands of American travelers had been exposed. Fortunately, the disease has been, thus far, relatively mild; but even a mild flu pandemic can strain health care resources, cause millions of people to become ill, thousands to die prematurely, curtail economic activity, and upset diplomatic relations as countries attempt to limit the spread of the virus.

- The pandemic highlights the need to avoid narrowly targeting surveillance and control measures on only one particular health threat. No one can predict which of the myriad of potential health threats will suddenly emerge, where the threat will come from, or when. For the last several years, the world focused on the emergence of H5N1 avian influenza from Asia. While the possibility of an H5N1 avian flu pandemic helped the US government respond to the actual H1N1 pandemic, the international focus for avian influenza in Eurasia deflected international attention and resources away from the possibility of the emergence of a different virus, from another region, and from a different animal host.

As seen with H1N1-2009 pandemic, travel between countries links our population's health to the health and sanitary conditions of every country, and our knowledge of the potential threats is limited by the inadequacies of international disease surveillance in animals and man. We have warned in the past that surveillance capacity to detect pathogens in humans varies widely between countries. Of equal concern, the lack of consistent surveillance and diagnostic capability for diseases in animals is a formidable gap even in developed countries that undermines the United States' ability to identify, contain, and warn about local outbreaks before they spread. Some 70 percent of human pathogens originated from animals, yet global surveillance of animal diseases remains chronically under funded.

The ability to detect and contain foreign disease outbreaks before they reach this country is partially dependent on US overseas laboratories, US relationships with host governments, and state willingness to share health data with non-governmental and international organizations. Partnerships with countries on improving laboratory capabilities provide opportunities for US engagement, such as the recent agreement to open a Global Disease Detection Center in India. However, a lack of transparency and a reticence to share health data and viral specimens remains a concern.

Governments' reactions to the current pandemic highlight how health policy choices can have immediate impacts, particularly disease-associated disruptions in travel and trade. If the pandemic had been more severe, the potential for massive economic losses, threats to government stability, and criminal activity and violence would have been greater.

Moreover, the health policies of governments and non-state organizations can have long-term detrimental implications for the United States. Indonesia in early 2007 stopped sharing specimens of the H5N1 avian influenza virus with the WHO, demanding that the WHO adopt a new system that would more equitably distribute influenza vaccines and other medical countermeasures. Several developing countries and NGOs have supported Indonesia in the WHO negotiations. Although the discussion has focused on influenza viruses with pandemic potential, those developing countries will probably push for the agreement to be extended to all biological specimens. Such a change in the international system, that more equitably distributes vaccines and pharmaceuticals globally, would slow the availability of sufficient amounts of medications in the United States to respond to a pandemic.

- Thailand started a trend two years ago when it issued compulsory licenses for a few patented pharmaceuticals to treat AIDS and heart disease. Should more middle-income countries follow suit or use the threat of compulsory licenses to secure deep discounts, pharmaceutical companies probably will increase prices in the United States to compensate for declining revenue in other parts of the world, undermining efforts in the US to control healthcare costs.
- China's health policy has indirect but extremely important economic implications for addressing its external imbalances. China's population saves a large percentage of its earnings to prepare for retirement and guard against catastrophic out-of-pocket expenses if they become ill. (Some economists believe these high savings rates contribute to the financial imbalances between the United States and China.) Beijing is taking important steps to increase public spending on healthcare and reduce the need for household precautionary saving.

The spotty delivery of basic services in many countries, particularly for health and education, provides an opportunity for non-state organizations to proselytize and develop political legitimacy. Hamas's and Hezbollah's provision of health and social services in the Palestinian Territories and Lebanon over the past 20 years has helped to legitimize those organizations as a political force. Islamic extremists in Afghanistan and Pakistan followed a similar model to gain acceptance for their ideas by providing education services that the governments were not providing. Similar efforts are probably underway elsewhere in the world.

Americans' health is also vulnerable because of the vast amount of foods and medical supplies that are imported and the lack of enforcement of sanitary standards at their point of origin. Most countries have laws and regulations to ensure food and drug safety but often lack sufficient funding to enforce those laws. Consequently, contaminated products, whether accidentally or economically motivated, can be shipped to American consumers. The economically motivated contamination in China of pet food, infant formula, and other milk products with melamine and the tainting of the active ingredient in the drug heparin highlight the necessity of continued vigilance to ensure food and drug safety and a stable supply.

- We assess that the United States has a critical foreign dependence on several pharmaceuticals, such that an overseas disruption in supply would adversely affect Americans' health that would not be easily mitigated through an alternative supplier or product. These include pharmaceuticals to treat radiation exposure, anthrax, botulism, diabetes, and the flu, and the precursor to heparin.
- Additionally, most of the world's flu vaccine production capacity is concentrated in Europe. If the flu pandemic had been more severe, many governments probably would have been pressed to stop exports of the vaccine until their domestic population was sufficiently vaccinated, further delaying the delivery of vaccines to the United States beyond what has already been experienced.

Significant State and Non-State Intelligence Threats

During the past year, China's intelligence services continue to expand and operate in and outside the United States. Its human collection services enhanced their collection and processing capabilities directed against the United States. Russia continues to strengthen its intelligence capabilities and directs them against US interests worldwide. Moscow's intelligence effort includes espionage, technology acquisition, and covert action efforts to alter events abroad without showing its hand.

Iran is enhancing its focus on US intelligence activities and relies on foreign intelligence partnerships to extend its capabilities. Iran continues to pursue intelligence outreach efforts to reduce the country's isolation and counter US interests.

Cuban intelligence collects against US activities for insight into our operations and intentions globally. Cuba maintains intelligence liaison relationships with a number of US adversaries and competitors.

North Korea and Venezuela possess more limited intelligence capabilities focused primarily on regional threats and supporting the ruling regime. North Korea continues to collect information on US technologies and capabilities. Venezuela's services are working to counter US influence in Latin America by supporting leftist governments and insurgent groups.

Several transnational terrorist groups have demonstrated the capability to conduct intelligence activities to support their operational and political activities. Al-Qa'ida possesses effective but uneven intelligence capabilities. Lebanese Hizballah exhibits effective intelligence and counterintelligence capabilities and activities.

- International organized crime networks—including drug traffickers—continue to improve their intelligence capabilities and pose a growing threat to the United States.

Growing Threat from International Organized Crime

International organized crime (IOC) is threatening US interests by forging alliances with corrupt government officials, undermining competition in key global markets, perpetrating extensive cyber crimes, and expanding their narcotrafficking networks. The nexus between international criminal organizations and terrorist and insurgent groups also presents continuing dangers. The drivers behind these changes—including globalization, the Internet, and the growing technological savvy of some criminal organizations—will increasingly favor IOC.

IOC penetration of states will deepen, leading to co-option in a few cases and further weakening of governance in many others. The growing span of IOC business activities and financial incentives is pushing IOC to seek strategic alliances with state leaders and foreign intelligence services, threatening stability and undermining free markets.

At one end of the spectrum is the apparent growing nexus in Russian and Eurasian states among government, organized crime, intelligence services, and big business figures. An increasing risk from Russian organized crime is that criminals and criminally linked oligarchs will enhance the ability of state or state-allied actors to undermine competition in gas, oil, aluminum, and precious metals markets.

IOC penetration of governments is exacerbating corruption and undermining rule of law, democratic institution-building, and transparent business practices. In China, IOC corruption of party and government officials is aggravating an already difficult operating environment for US businesses. Countries with weak governance where corrupt officials turn a blind eye to illicit IOC activity include Afghanistan, many African states, Balkan states, and some Latin American states where narcotrafficking is rampant.

IOC almost certainly will increase its penetration of legitimate financial and commercial markets, threatening US economic interests and raising the risk of significant damage to the global financial system. International criminal organizations are amassing substantial financial clout.

- International criminal organizations will increasingly damage the ability of legitimate businesses to compete and may drive some legitimate players out of the market. IOC engages in bribery, fraud, violence, and corrupt alliances with state actors to gain the upper hand against legitimate businesses.

- Through piracy and state relationships that help criminal networks avoid regulation, IOC is flooding the world market with inferior products. IOC is likely to increasingly threaten industries that depend on intellectual property such as fashion, pharmaceuticals, computing, finance, entertainment, and publishing—all US economic strengths.
- Emerging market countries are particularly vulnerable. Corruption, weak enforcement, and a lack of transparency provide fertile ground for IOC activity in these countries, making them less appealing for legitimate investors.
- Organized crime's coercive tactics and shady business practices most likely will further undermine transparency and confidence in key energy, metal, and other sectors where recent acquisitions and investments have occurred.

International criminal organizations are likely to become more involved in cyber crimes, raising the risk of significant damage to the global financial and trust systems—banking, stock markets, and credit card services—on which the global economy depends. IOC is increasingly proficient at using technology for old ventures, including fraud, contraband sales, and money-laundering as well as for new types of crime such as hacking to steal money and credit card data. Technological advances in information technology applications and the slow adoption of defensive technologies are making it easier for criminals to conduct successful attacks.

Terrorists and insurgents increasingly will turn to crime to generate funding and will acquire logistical support from criminals, in part because of US and Western success in attacking other sources of their funding. Terrorists and insurgents prefer to conduct criminal activities themselves; when they cannot do so, they turn to outside individuals and criminal service providers. Involvement in the drug trade by the Taliban and the Revolutionary Armed Forces of Colombia (FARC) are critical to the ability of these groups to fund attacks. Drug trafficking also provides support to other terrorists, such as Hezbollah. Some criminals could have the capability to provide WMD material to terrorists.

Many of the well-established organized criminal groups that have not been involved in producing narcotics—including those in Russia, China, Italy, and the Balkans—are now expanding their ties to drug producers to develop their own distribution markets and trafficking networks.

Conclusion

A year ago the deteriorating global economy threatened to trigger widespread political instability. I am happy to report that, while the recovery remains tenuous, the past economic clouds darkening the whole strategic outlook have partially lifted. Despite the myriad uncertainties and continuing challenges, the economic and political picture we are facing today could have been far worse if the economic free fall had not been stopped. As I indicated last year, the international security environment is complex. No dominant adversary faces the United States that threatens our existence with military force. Rather, the complexity of the issues and

multiplicity of actors—both state and non state—increasingly constitutes one of our biggest challenges. We in the Intelligence Community are seeking to understand and master the complexity and interlocking ties between issues and actors and in doing so believe we can help protect vital US interests in close cooperation with other civilian and military members of the US Government.